# Annual Report and Group Financial Statements

2018-2019

Southern Housing Group

# A business with social objectives

# Principal advisors, secretary and registered office

| External auditors | Principal bankers | Secretary & registered office |
| --- | --- | --- |
| **PricewaterhouseCoopers LLP** | **National Westminster Bank PLC** | **Iain Mackrory-Jamieson**<br>(appointed 1 April 2019) |
| Chartered accountants and statutory auditors | Corporate banking | Group Company Secretary |
| 1 Embankment Place<br>London WC2N 6RH | Second Floor, County Gate<br>2 Staceys Street<br>Maidstone<br>Kent ME14 1ST | Southern Housing Group<br>Fleet House<br>59-61 Clerkenwell Road<br>London EC1M 5LA |

The consolidated financial statements of:

Southern Housing Group Limited
Southern Home Ownership Limited
Southern Space Limited
Southern Development Services Limited
Spruce Homes Limited
Southern Housing Construction Limited

**We do not distribute our surplus – every penny we make and more is invested in providing good quality homes and services.**

# Contents

# Chair of the Board and Chief Executive's introduction

**Arthur Merchant**
Chair of the Board

**Alan Townshend**
Group Chief Executive

This year has certainly been an eventful one in the political life of our country. Perhaps one of the most notable events for our sector was the bringing forward of a Social Housing Green Paper from a Conservative government. In part this was stimulated by the Grenfell tragedy, the lessons from which are still coming into focus, but also in part as a follow up to the previous White Paper in 2017: "Fixing our broken housing market" which at last recognised the issue of affordability and supply of housing. The long awaited return of government support for social rent, which followed the London Mayor's introduction of London Affordable Rent, social rent by another name, is very welcome.

In the many ways we interact with our residents, whether it's the visits that we make to see our residents in their homes or the feedback we get from our residents' surveys, a common theme is the balance needed between building new homes and investing in existing residents' homes and communities. We recognise the need to do both effectively with the right financial capacity available to both build and invest. Our successful bond issues totaling £300m in the last 12 months have given us that.

Our surplus this year was £38.6m. Every penny we make and more is reinvested in new and existing homes for people in housing need.

This year we have increased our investment into repairs and planned maintenance. Ensuring that all our residents have a safe and decent home remains a key priority for us. Increasing investment in fire safety risk assessments and works has also been a key feature and this will continue into 2019-20. Overall the plan is to invest over five times our surplus in 2019-20.

Dame Judith Hackitt's review has concluded and we fully support the recommendations made. We have introduced dedicated building managers for our high-rise blocks and have identified and are implementing a range of improvements to enhance our residents' safety.

In response to the Social Housing Green Paper we engaged with over 400 residents and their feedback supported the themes and outcomes from the national consultation. We must all accept responsibility for the stigma that exists around social housing. Together we will address the causes. An important element of that is providing the channels that make it easy to hear our residents' voices.

We are putting in place plans to strengthen resident scrutiny and involvement in the way the Group is run. At the core of our business is the excellent work that our Community Investment and Care teams do to support our most vulnerable residents. Our Community Investment strategy revolves around supporting our residents' independence which in turn aims to sustain tenancies and tackle poverty. We have increased resources for our financial inclusion teams who are helping our customers with financial skills and managing everyday living costs. This support work has contributed to a positive end of year position for our income collection and arrears. Although that is good for the Group's financial position, it is really a success story for the residents and families we have helped to remain in their homes or found a job.

On the Isle of Wight, we were delighted to receive a rare "outstanding" rating from the Care Quality Commission for one of our schemes. This is a direct reflection of the amazing dedication of our colleagues who care for and support the independence of our residents.

This year we secured £55m of government support through our Strategic Partnership with Homes England. With this we plan to build an extra 1,000 affordable homes across the south east. A high number of these homes will be for social rent which we know is much needed in the communities where we work. Our commitment to increasing housing supply will see a stepped increase in the numbers of new homes we build over the coming years.

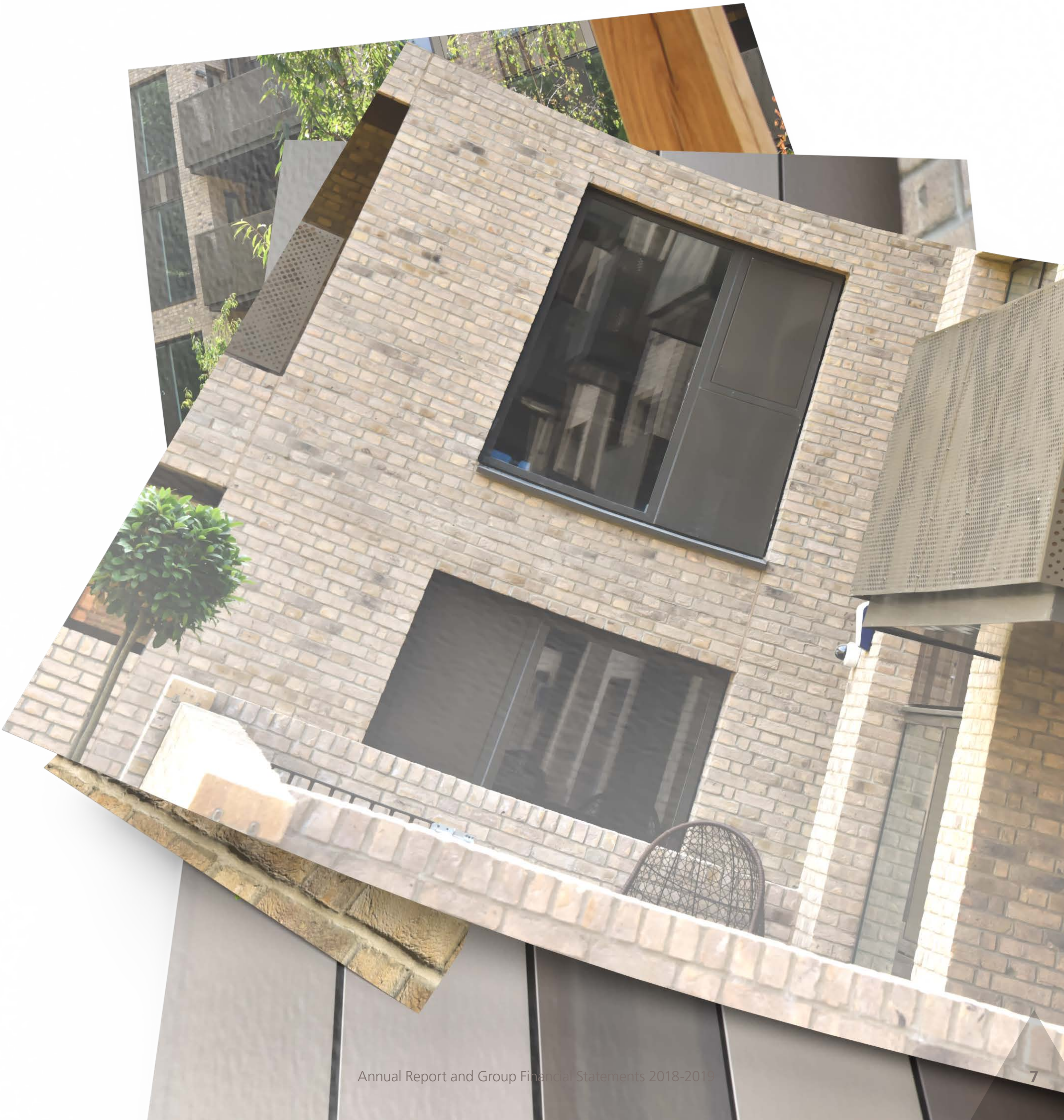
Equally important to us is the investment we are making in service improvements including developing new online services for our residents as part of our digital strategy which aims to make it easier for our residents to access our services.

Remaining a well governed organisation is at the heart of our future ambitions. We continue to retain the highest rating for governance and viability with the Regulator of Social Housing.

All our achievements as a Group are down to the hard work, skill, goodwill and dedication of our staff.

We know that everyone has a part to play and this year we have been focused on increasing support for equality, diversity and inclusion through a programme of events, support and the introduction of ED&I champions across the Group. There is more work to do but we know that colleagues are proud to work for the Group and we want that to continue and grow.

The Group is in a great position, financially stable with the capacity and strategies we need in place to realise our objectives.



# Strategic review

# A business with social objectives

Southern Housing Group was established in 1901 and has grown to become one of the largest housing associations in the south east of England.

We house 72,000 customers, own and manage over 28,000 homes and work with more than 40 local authorities. We employ over 1000 people, offer a range of housing products for rent and sale, and undertake a wide range of activities to improve the lives of our customers.

Being a business with social objectives means we invest every penny and more into good quality homes and services for people in housing need. Over the last year we made a surplus for the year of £38.6m and invested £200m in existing and new homes. Our strategy is to grow our business so that we can create value for our customers through the fulfillment of our social objectives.

# Board KPIs

The Group's key performance indicators help the Board to monitor progress against the Corporate Strategy.

### The 2018-19 Board KPIs:


Gas servicing % complete
100%
Emergency repairs completed
99%
Gearing %
37%
New supply non-social %
0.5%
Operating margin social housing
23%
Operating margin overall
31%
Return on capital employed
3.3%

*Our social housing cost per unit is comprised as follows:

| | 2018-19 | 2017-18 |
|---|---|---|
| Management costs | £1,735 | £1,800 |
| Service charge costs | £914 | £758 |
| Routine maintenance costs | £967 | £974 |
| Planned maintenance costs | £224 | £149 |
| Capitalised major costs | £998 | £856 |
| Other social housing activities | £205 | £200 |
| **Social housing cost per unit** | **£5,044** | £4,737 |

## KPI definitions


### Overall customer satisfaction
The overall % of customers satisfied with our service.


### Voids turnaround time (days)
All tenures combined average re-let time in days.


### Rent arrears - %
Current arrears as a percentage of rent due. This is total arrears of current tenants as a percentage of the annualised gross rent.


### Gas servicing complete - %
The number of properties with a valid gas certificate at the end of the period divided by the number of properties on contract. Tenure neutral.


### Emergency repairs completed - %
This is the % calculation from all emergency jobs raised to the jobs actually completed within 24 hours.


### Reinvestment
This metric looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.


### New supply social - %
The new supply metric sets out the number of new social housing units that have been acquired or developed in the year as a proportion of total social housing units.


### New supply non-social - %
The new supply metric sets out the number of new non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at period end.


### Gearing - %
Gearing is measured as debt divided by reserves and grant. Our tightest covenant is 75%. Our gearing funding covenant is the biggest constraint on our capacity.


### EBITDA MRI
Interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a registered provider generates compared to interest payable; the measure avoids any distortions stemming from the depreciation charge.


### Social housing cost per unit
This is the sum of social housing operating expenditure with: service charge costs, routine maintenance costs, planned maintenance costs, major repairs expenditure, capitalized major repairs expenditure for period, other (social housing letting) costs, other operating expenditure divided by the sum of units in management at period end. This is the cost of running a social housing unit.


### Operating margin social housing
The operating margin demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business.

Operating margin overall

▲ 31%

**Operating margin overall**
Operating surplus / (deficit) from social housing lettings divided by turnover from social housing lettings.

Return on capital employed

▲ 3.3%

**Return on capital employed**
This metric compares the operating surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources. The ROCE metric would support registered providers with a wide range of capital investment programmes.

# Our Corporate Strategy

We launched our current three year Corporate Strategy in 2017. The challenges we face as an organisation and the way we deliver our Corporate Strategy is informed by the political, economic and social environment that we work in. Every year we review our progress against the objectives we have set ourselves. Our current Corporate Strategy is coming to an end and our new Corporate Plan will be coming out in 2019. The new strategy builds on the work we have done here and moves us into a clear framework for measuring success.


### Live by our values

- We work together
- We get things done
- We do the right thing

### Provide more quality homes

- Use our capacity to build new homes
- Make sure we meet our design and sustainability standards
- Offer a range of homes and tenures to meet diverse customer needs
- Provide more homes for low income households

### Stay safe and secure

- Maintain and improve the safety of our homes
- Improve our estates and living environments
- Keep our colleagues safe
- Be a great place to work

### Excel at customer service

- Listen to our customers
- Do the basics brilliantly
- Make it easy to do business with us
- Provide products and services that meet the needs of our different customer groups

### Remain financially strong

- Generate and reinvest our surplus
- Demonstrate value for money
- Grow the business independently
- Reinforce our cultural and digital transformation

# Our five Corporate Strategy objectives are:

## #1 Live by our values

**We get things done, we work together and we do the right thing.**
These values set out what colleagues expect of each other, and what our customers expect from us. When we are under challenging and changing circumstances, these values help us to deliver the best we can – because living our values is all in a day's work.

## #2 Provide more quality homes

This objective builds, quite literally, on our previous strategy successes. London and the south east needs more new homes of all tenures, and our social purpose is to help meet these needs. We proudly reinvest every penny of our surplus in new homes and to providing well-designed, quality, affordable, sustainable homes to our customers.

## #3 Stay safe and secure

The safety of customers and colleagues has always been a priority, but post the Grenfell Tower disaster and as we embrace agile working, we must ensure our residents and colleagues are safe and secure.

## #4 Excel at customer service

The Building our Future programme has shaped the services we offer and how we deliver those services.
We continue to adapt to meet rising customer needs and expectations, and harness technological advances to benefit our customers to make doing business with the Group easier and more satisfying for everyone, especially as the economy puts household budgets under pressure.

## #5 Remain financially strong

We are financially strong as a business, however, we operate in a tough financial climate that is affected by politics and economics. We need to balance being commercially astute so that we can deliver our social purpose – we are a business with social objectives. By operating commercially we can generate a surplus to invest in new homes, maintain existing homes and offer services that make a meaningful difference to the quality of our customers' lives.

### Corporate strategy objective #1

# Live by our values

Our values set out what is expected of colleagues across the Group and what our customers expect from us.

When we are under challenging and changing circumstances, these values are our framework for delivering the best outcomes we can.


Creating change doesn't just happen. We believe each of us needs to make choices which have the power to improve the way we work. Choosing what's right, not what's easy is true strength of character.


Tackling challenging situations is always easier when we share ideas and support each other. Working together is the difference between solving a problem after it's happened, and staying one step ahead.


Keeping promises sometimes means going above and beyond to keep them. Finding solutions and making things happen is what sets us apart and helps keep our customers happy – it's when we're at our best.


## Our values inform everything we do

We launched our corporate values last year. Three simple phrases work to ensure that we work together to do the right thing and get things done. We call our values: "All in a day's work".

Our values were developed following a range of discussion and consultation workshops held over a six month period. Launched with colleagues at three regional events in March 2018, the events were titled "All in a day's work" because our colleagues felt that they identified with the values and lived them on a daily basis. Our values underpin our corporate strategy and form part of our corporate DNA.

## Being a great place to work

Our people are key to our success and we invest in activities and programmes to ensure we can attract, recruit, develop and retain talented people within our business.

**Key facts and figures**

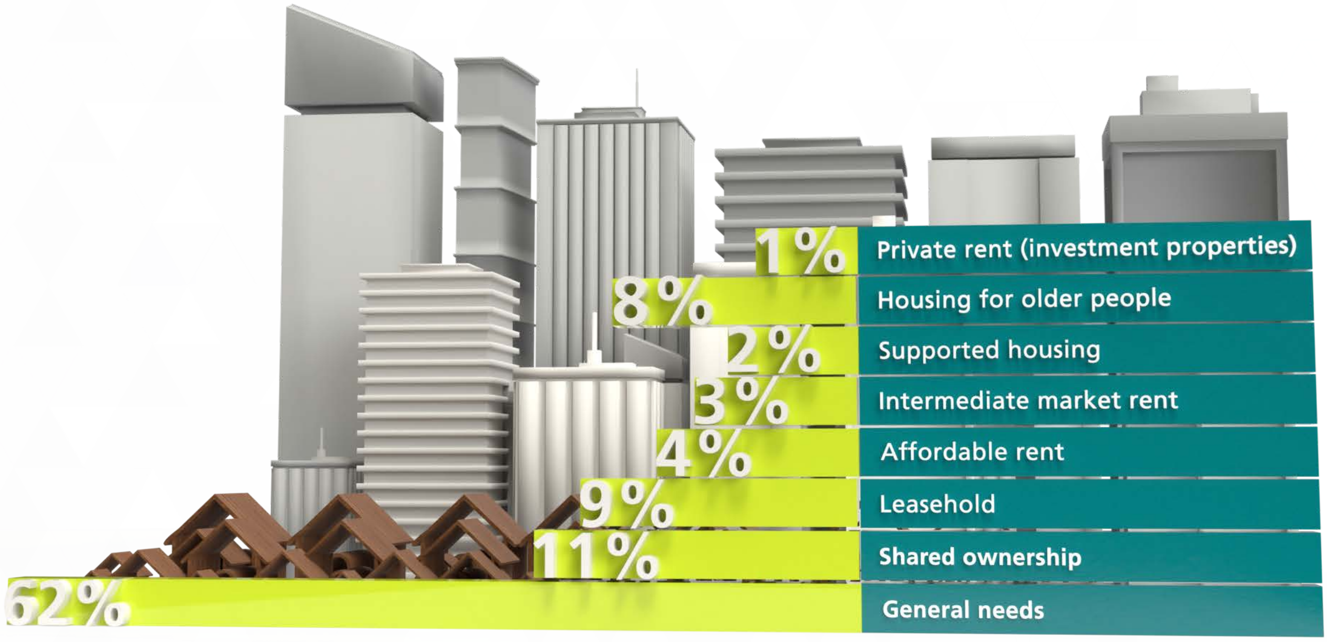
### Corporate Strategy objective #2

# Provide more quality homes


- Use our capacity to build new homes
- Make sure we meet our design and sustainability standards
- Provide more low rent homes for low income households

### Key facts and figures

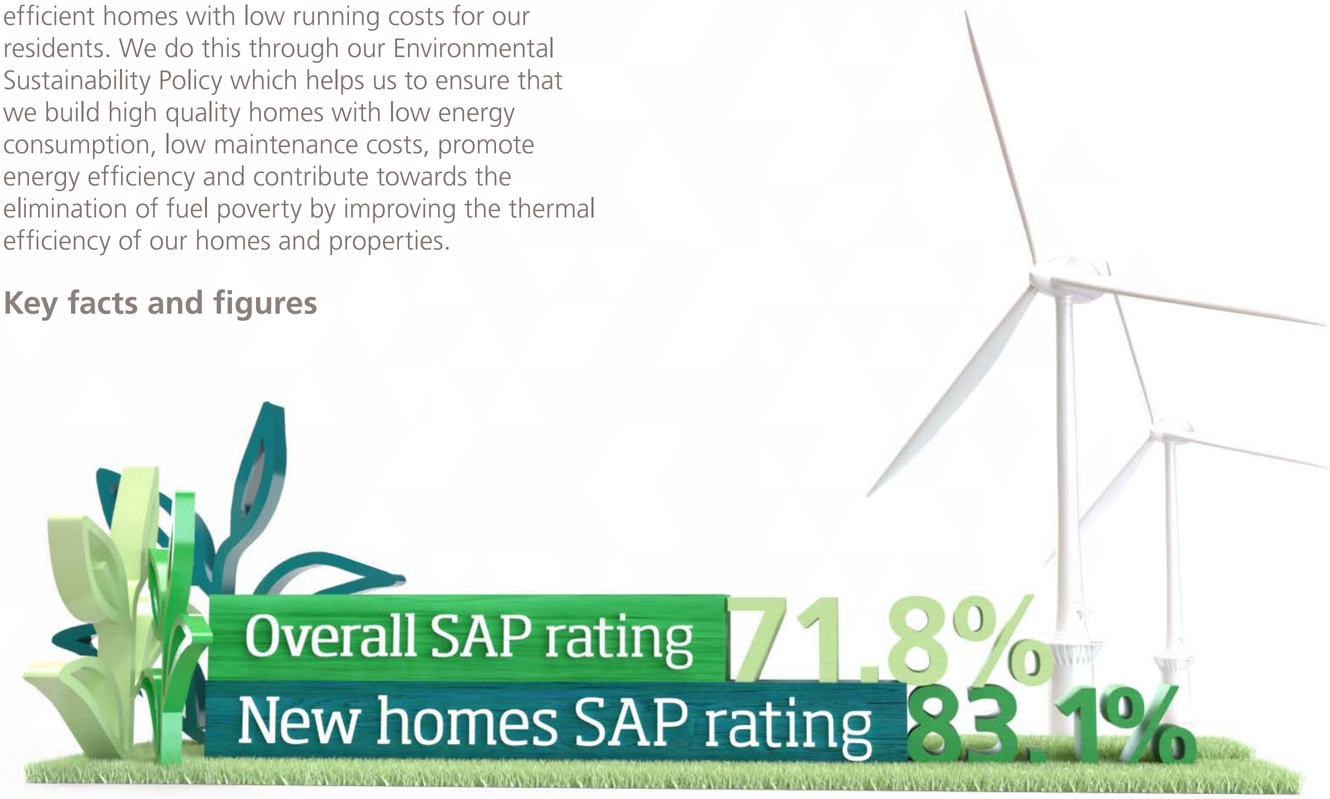
### The Group's homes by tenure type




# Sustainability

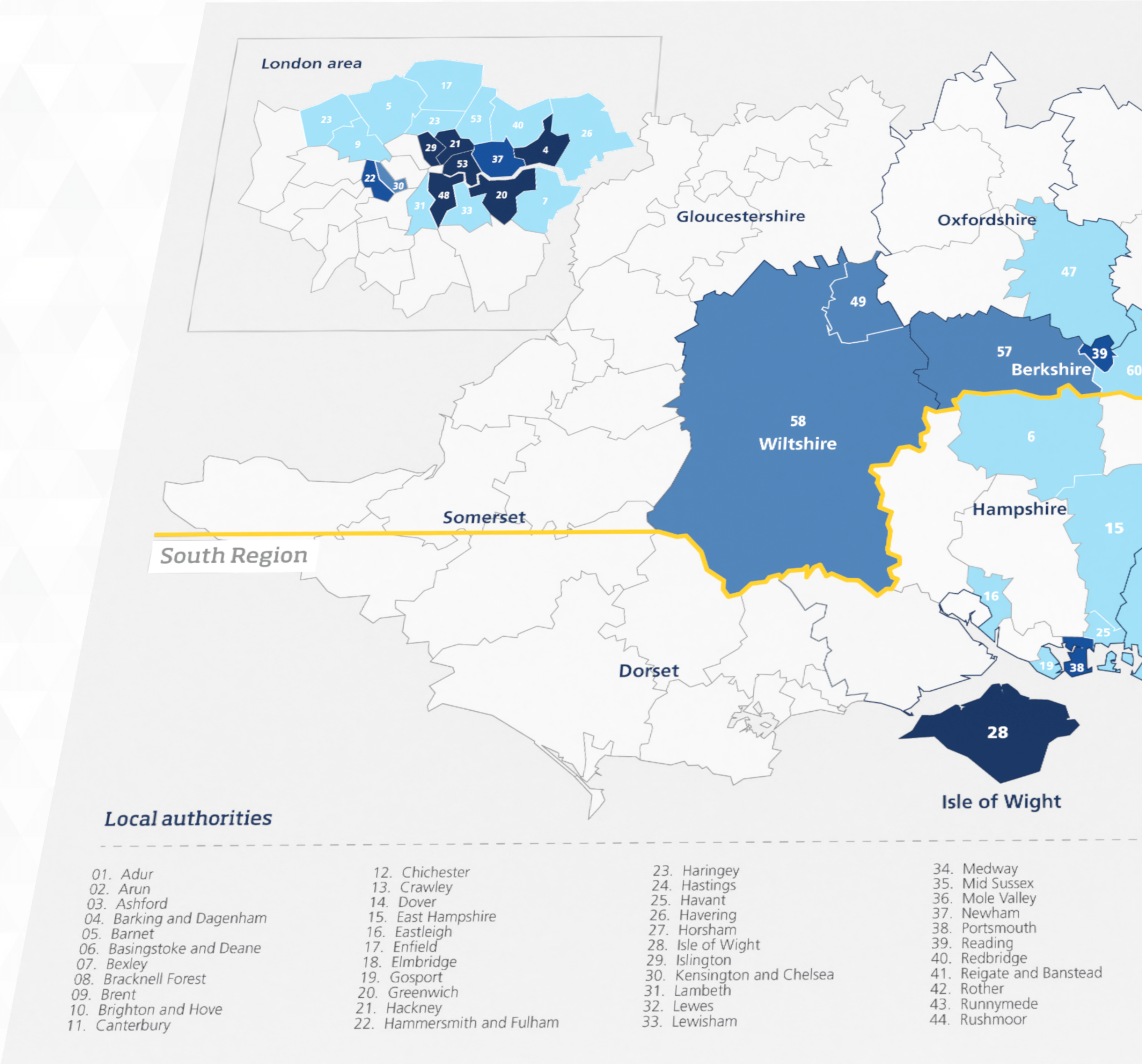
We are committed to reducing our impact on the environment and to providing comfortable, energy efficient homes with low running costs for our residents. We do this through our Environmental Sustainability Policy which helps us to ensure that we build high quality homes with low energy consumption, low maintenance costs, promote energy efficiency and contribute towards the elimination of fuel poverty by improving the thermal efficiency of our homes and properties.

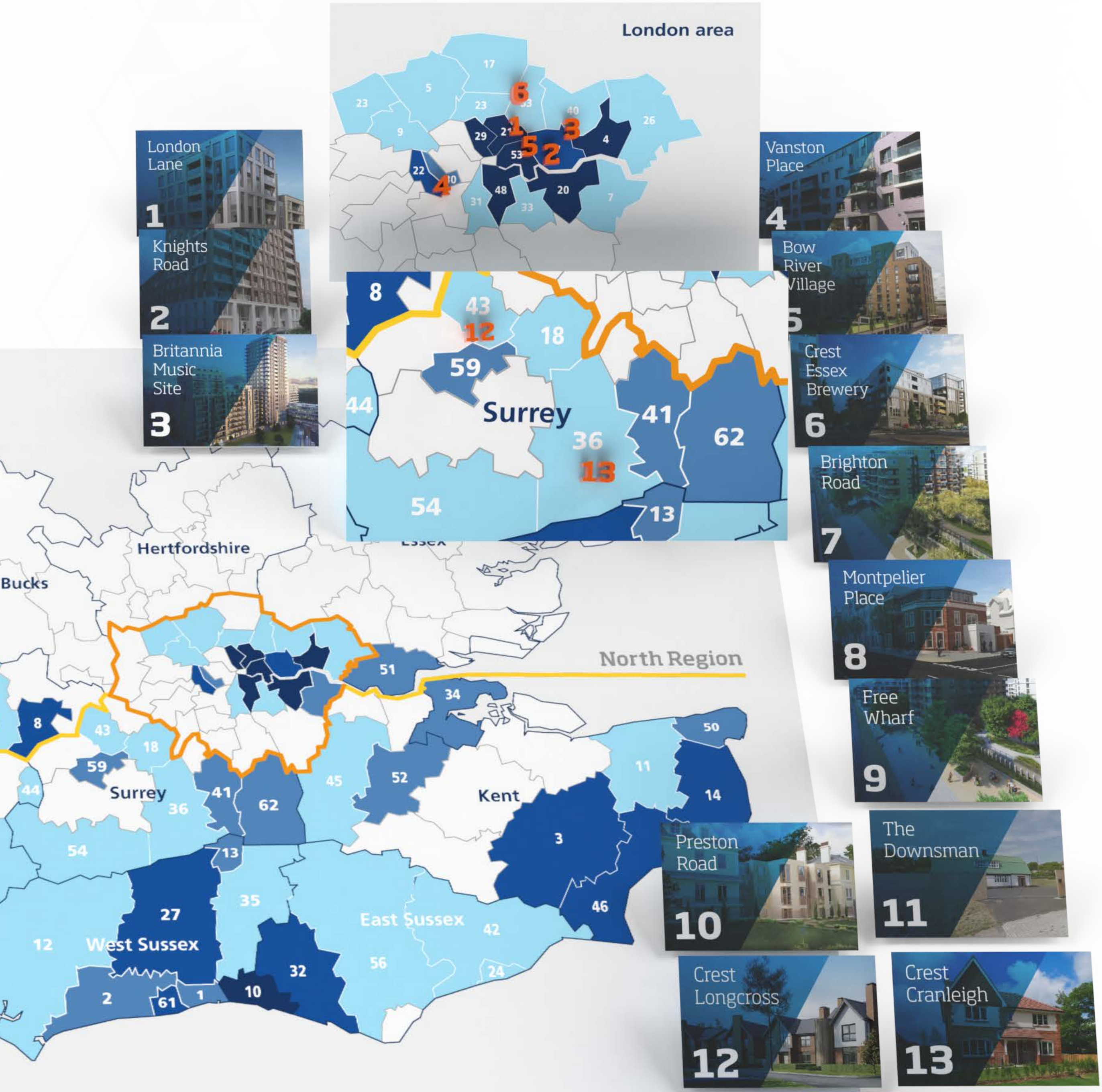
### Key facts and figures




Our target is to sustain an overall SAP rating of at least 71% annually between 2018 and 2022.

# Where we have developed across the south in 2018-19







45. Sevenoaks
46. Shepway
47. South Oxfordshire
48. Southwark
49. Swindon
50. Thanet
51. Thurrock
52. Tonbridge and Malling
53. Tower Hamlets
54. Waltham Forest
55. Waverley
56. Wealden
57. West Berkshire
58. Wiltshire
59. Woking
60. Wokingham
61. Worthing

### Corporate Strategy Objective #3

# Stay safe and secure

- Maintain and improve the safety of our homes
- Improve our estates and living environments
- Keep our colleagues safe
- Be a great place to work

### This year the Group has:

- Started work and made significant progress to replace combustible cladding on a high rise block in Reading, Berkshire
- Accelerated fire safety work including replacement of external doors.

### Key facts and figures

### Corporate Strategy objective #4

# Excel at customer service

- Listen to our customers
- Do the basics brilliantly
- Make it easy to do business with us
- Provide products and services that meet the needs of our different customer groups

## Customer Service Values

Our vision is to excel at customer service and our customer service values build on the Group's values to set out how we are working to achieve this.

## Key facts and figures

# Community Investment and Care

Making lives better, supporting independence and improving communities is at the heart of what we do as an organisation.

## Key facts and figures

# Care and Supporting Independence (CASI)

We help people live independently, either in their own homes or in one of our supported homes. We have a great deal of experience working with a diverse range of people with many different needs.

We own and manage more than 3,000 properties on the Isle of Wight and have been delivering care and support services and specialist accommodation across the Island since 1990.

*"Staff [are] passionate about providing a friendly and caring environment for the people using the service"*

**CQC – "Outstanding" rating for Southern Housing Group's 22 Argyll Street care and supporting independence home on the Isle of Wight**

**Some of our highlights include:**


# Sheltered Housing

**Key facts and figures**

# Financial review

### Corporate Strategy objective #5

# Remain financially strong

- Generate and reinvest our surplus
- Demonstrate value for money
- Grow the business independently
- Reinforce our cultural and digital transformation


# Financial Review

## Group financial performance

During 2018-19 for the fifth consecutive year the Group spent more than its surplus on investment in our existing stock and new homes – a total of £200m. We have enhanced our asset base by creating new homes and maintaining our existing housing stock. We have also improved our IT capabilities to ensure that our systems and processes are as robust as possible to support future years' growth. This investment was funded primarily through loans as well as £38.6m from surplus. A further £4m was funded through government grants and other working capital movements.

Our underlying social housing operating margin of 23.1% is lower than the previous year's position of 25.6%. 2018-19 was the third of four years of the imposed 1% rent reduction and this was coupled with a conscious decision to invest in our existing stock which means that we are now well progressed towards our target of being 100% FRA, electrical testing and gas compliant. We expect to see our overall margin strengthen to 33% in the next financial year.

| Investment | 2018-19 £m | 2017-18 £m | Funding | 2018-19 £m | 2017-18 £m |
|---|---|---|---|---|---|
| In existing homes | **25** | 15 | Surplus for the year | **39** | 45 |
| In new homes | **165** | 102 | Treasury management | **157** | 68 |
| In the business | **10** | 2 | Grant and other | **4** | 6 |
| **Total** | **200** | 119 | | **200** | 119 |

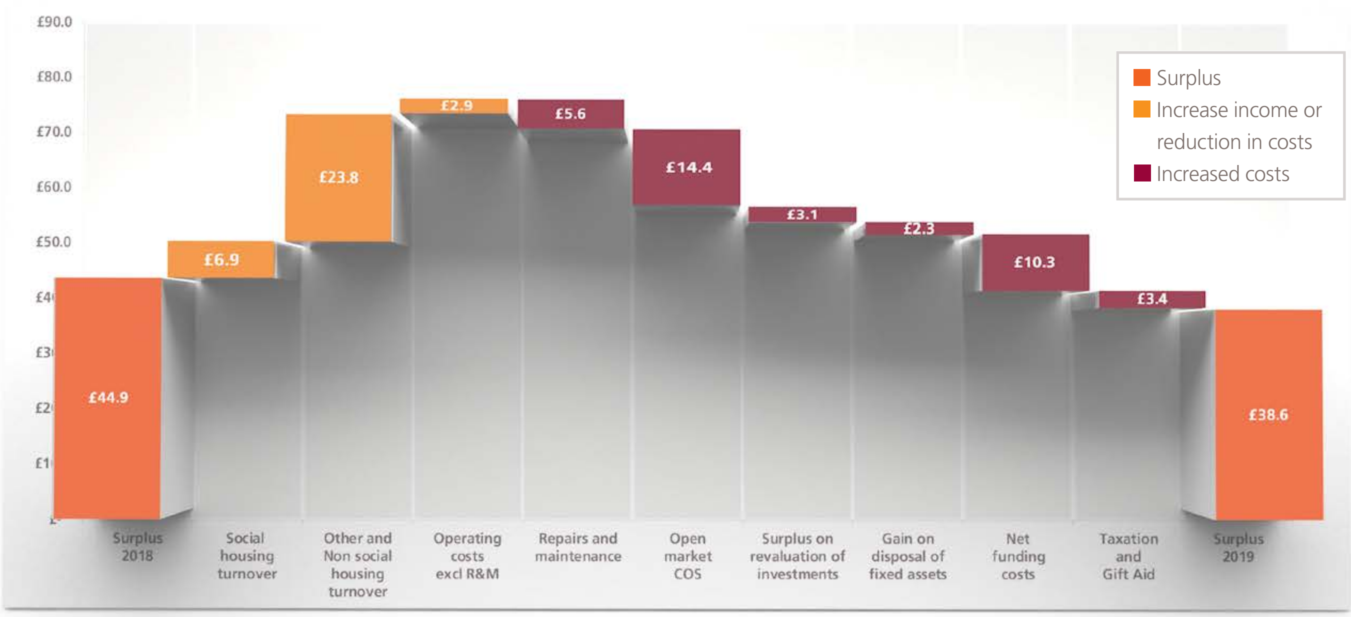
## Accounting policies

The accounting policies are set out on pages 75 to 81 of the Group financial statements starting on page 71 of this report.

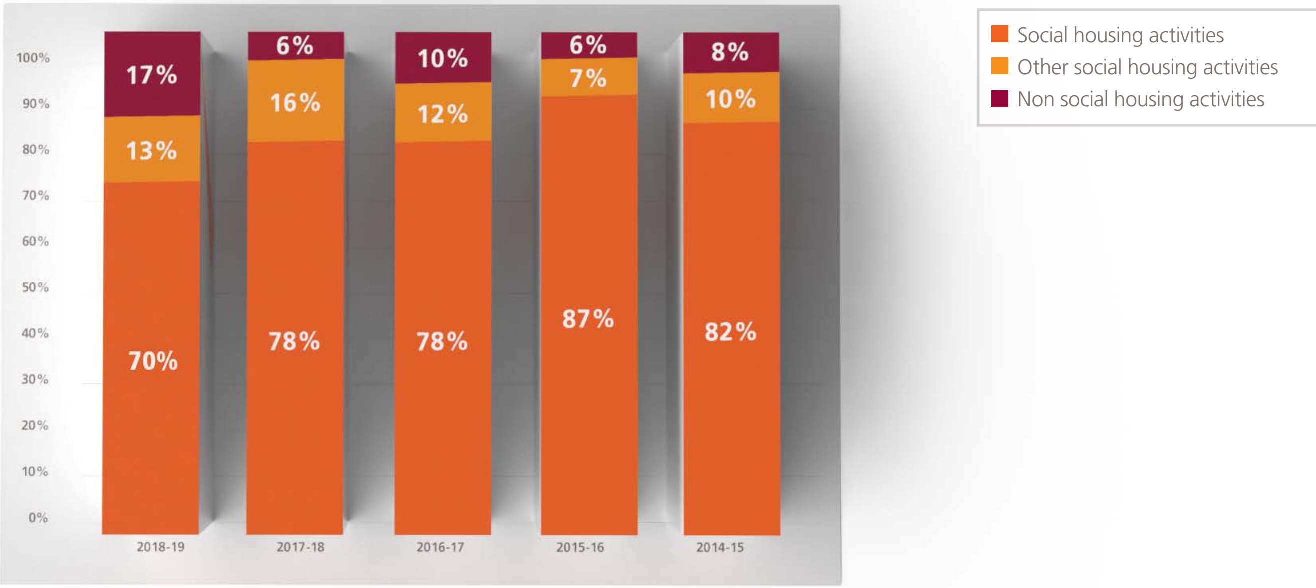
| | 2018-19 Total £m | 2017-18 Total £m | 2016-17 Total £m | 2015-16 Total £m | 2014-15 Total £m |
|---|---|---|---|---|---|
| Social housing lettings income | 159.9 | 155.4 | 156.4 | 154.2 | 150.7 |
| Other social and non social housing lettings income | 70.6 | 44.3 | 43.6 | 23.2 | 34.1 |
| **Total turnover** | **230.5** | 199.7 | 200.0 | 177.5 | 184.9 |
| Social housing operating costs | 122.8 | 115.6 | 105.3 | 107.2 | 101.0 |
| Other social and non social housing operational costs | 45.8 | 34.9 | 29.8 | 12.8 | 24.5 |
| **Total operating costs** | **168.6** | 150.6 | 135.1 | 120.0 | 125.5 |
| Social housing surplus | 37.1 | 39.8 | 51.1 | 47.1 | 49.7 |
| Other social and non social housing surplus | 24.8 | 9.3 | 13.8 | 10.4 | 9.7 |
| Disposal of fixed assets | 9.7 | 11.1 | 13.6 | 19.3 | 25.7 |
| Investment property revaluation | 0.6 | 3.0 | 20.5 | 5.2 | 4.7 |
| **Operating surplus** | **72.1** | **63.3** | **99.1** | **82.0** | **89.8** |
| Net funding costs | (32.8) | (22.0) | (32.4) | (31.9) | (51.8) |
| Taxation and Gift Aid | (0.7) | 3.6 | (4.8) | 0.0 | (3.3) |
| **Surplus** | **38.6** | 44.9 | 61.9 | 50.1 | 34.7 |
| Social housing operating margin | 23.2% | 25.6% | 32.7% | 30.5% | 33.0% |
| Other social and non social housing margin | 35.1% | 21.1% | 31.7% | 44.7% | 28.3% |
| **Overall margin** | **31.3%** | 31.7% | 49.5% | 46.2% | 48.6% |

The year on year operating surplus has increased by £9m to £72m (2017-18 £63m) as a result of strong open market sales. A total of 7 units at London Lane (Hackney) were sold ahead of forecast reducing our exposure to risk in a slowing sales market. The effects of this slowdown were felt in the last quarter of the year and therefore a decision was made to convert 22 unsold units in London and Brighton to private rented units for a short term while the marketplace recovers.

The movement in surplus is shown by the chart below.



## Percentage of turnover by activity




- Social housing lettings income remains the largest proportion of our turnover from operations. Due to the mix of income, this dropped to 70% of total turnover (2017-18: 78%). Of the remaining 30% (2017-18: 22%), income generated from open market sales represents half (£35.4m) against 15% in 2017-18 (£7.1m). Shared ownership sales represent 35% (£24.9m) compared to 59% in 2017-18 (£27.7m).
- During the year, 139 shared owners properties bought a further share in their property at an average percentage of 38% (2017-18: 32%).

## Value for money metrics and analysis

The Group has a clear strategy to increase investment in new and existing homes and grow our social value. We have been working with new and existing lenders during 2018-19 to increase long term capacity to invest, withstand adverse events and expect future year's metrics to reflect these 'value for money' gains.

During 2018-19 the Board measured value for money against the 15 metrics contained within the sector scorecard alongside its 12 Board KPIs. For 2018-19 and going forward, as part of our continuing strategy to embed value for money into everything we do, we have included the seven new regulatory value for money metrics into our existing Board KPIs.

This table shows the Group's performance against the seven regulatory 'value for money' metrics from the sector scorecard.

| | 2018-19 | * 2017-18 | | | | | |
|---|---|---|---|---|---|---|---|
| **Measure** | **Group 2018-19** | Group | Global Upper Q | Global Median | Global Lower Q | London | 20k-30k Homes |
| Reinvestment | **7.70%** | 6.40% | 8.70% | 6.00% | **3.80%** | **5.50%** | **6.00%** |
| New supply social | **1.10%** | 0.30% | 2.30% | 1.20% | **0.50%** | **0.50%** | **1.00%** |
| New Supply non-social | **0.50%** | 4.50% | 0.07% | - | - | - | **0.05%** |
| Gearing | **37%** | 39% | 53% | 42% | **33%** | **36%** | **44%** |
| EBITDA MRI | **158%** | 137% | 263% | 206% | **154%** | **181%** | **216%** |
| Social housing cost per unit | **£5,044** | £4,737 | £4,500 | £3,400 | **£3,010** | **£5,750** | **£3,310** |
| Operating margin social housing | **23%** | 25% | 37% | 32% | **26%** | **27%** | **34%** |
| Operating margin overall | **31%** | 32% | 34% | 29% | **23%** | **26%** | **29%** |
| Return on capital employed | **3%** | 3% | 5% | 4% | **3%** | **3%** | **4%** |

*comparable sector scorecard figures are prior year 2017-18 as current year data is not yet available.

- Social housing cost per unit has increased from £4,737 to £5,044 which is an increase of 6.5% per unit. All of the increase can be directly attributable to repairs and maintenance following a conscious decision to invest in our existing stock, ensuring that that they are safe and secure. While this is higher than the average for the sector for the prior year, we expect the sector metrics to increase, reflecting current safety standards.

- Housing management costs have remained stable.

- Our return on capital employed has increased by 2% as we continue to increase our asset base. Following the year- end review of our stock, it was found to generally be in good condition and therefore no impairment was needed.

- Our development and growth programme has meant that our new supply for social housing has increased significantly this year through the development of 227 social homes together with the acquisition of 497 homes.

- Despite the significant changes to our Group debt structure, gearing has remained stable at 39%.

## Definitions:

1. **Reinvestment %** looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.

2. **New supply delivered** sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at period end.

3. **Gearing %** measures how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. It is often a key indicator of a registered provider's appetite for growth.

4. **Earnings before interest, tax, depreciation and amortisation major repairs included (EBITDA MRI) Interest Cover %** seeks to measure the level of surplus compared to interest payable; the measure avoids any distortions stemming from the depreciation charge.

5. **Headline social housing cost per unit** assesses the headline social housing cost per unit as defined by the regulator. The cost measures set out in the metric are unchanged from the metric used in the regulator's 2016 publication *Delivering better value for money.* However, the denominator has been changed from units managed to units owned and/or managed from 2018 onwards.

6. **Operating margin** demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business.

7. **Return on capital employed (ROCE):** this metric compares the surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources.

# Group Financial position

| | 2018-19 £m | 2017-18 £m | 2016-17 £m | 2015-16 £m | 2014-15 £m |
|---|---|---|---|---|---|
| Property, plant and equipment | **1,976** | 1,874 | 1,809 | 1,750 | 1,709 |
| Investment properties | **114** | 117 | 87 | 56 | 48 |
| Other investments | **11** | 16 | 14 | 13 | 14 |
| Stock | **87** | 60 | 59 | 38 | 35 |
| Other current assets | **67** | 85 | 137 | 159 | 158 |
| Current liabilities | **(62)** | (113) | (66) | (51) | (56) |
| Long term liabilities | **(1,564)** | (1,447) | (1,497) | (1,481) | (1,474) |
| Pensions | **(9)** | (9) | (10) | (8) | (9) |
| **Total net assets** | **620** | 583 | 533 | 476 | 425 |
| **Total reserves** | **620** | 583 | 533 | 476 | 425 |

- Property, plant and equipment increased by £102m as a result of the decision to invest in new and existing homes. The increased spend in fire risk safety has also contributed to this increase.
- Stock has increased by £27m which is mainly attributable to the open market sales portion of Dace Road (Tower Hamlets, London; £23m) which is currently held as work in progress.
- Working capital has reduced as a result of a reduction in other current assets by £18m. This is predominantly due to a reduction in cash and cash equivalents of £20m which is mainly as a result of procuring major development sites at Dace Road (Tower Hamlets, London) and Britannia Music Site (Ilford, London), as well as the acquisition of 497 homes.
- The increase in long term liabilities reflects the new borrowing following the restructure of the debt portfolio, the issue of a £300m sterling bond (£100m retained), offset by the termination of the standalone swaps.

# Treasury strategy and performance

In September 2018, Southern Housing Group's A2 Moody's credit rating was reaffirmed with the outlook being changed from stable to negative. Our credit rating remains at the upper end of Moody's rated housing associations. The A2 credit rating reflects the credit strengths of the Group by virtue of its large size and strong balance sheet, as well as strong liquidity position with the change in outlook to negative from stable reflecting the Group's planned strategic shift toward more ambitious growth, which will result in increased debt, development risk and market sales risk compared to the previous business plan.

The Group retains its Homes England G1/V1 regulatory grade for governance and financial viability.

In May 2018 the Group completed a restructure of its existing loan agreements, increasing the Group's financial capacity for long term investment. The Group's new gearing covenant substantially increases capacity and resilience whilst the widening of the Group's on-lending restrictions allows significant flexibility in future Group investment.

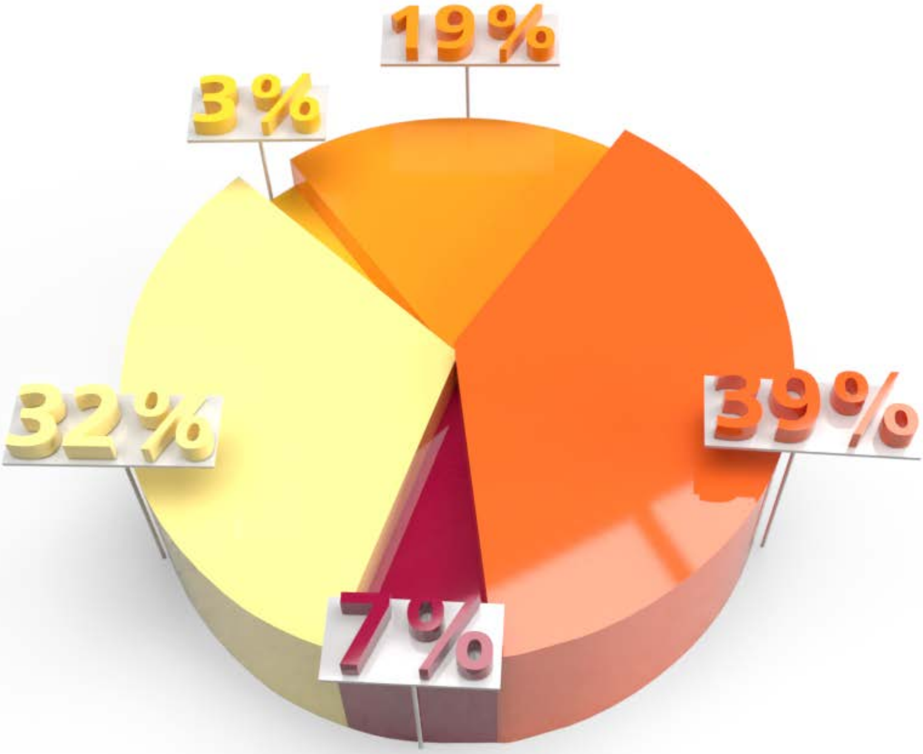
| **Southern Housing Group Limited – On-lending to Subsidiaries** | **2019 £000s** | 2018 £000s |
|---|---|---|
| Southern Space Limited | **1,109** | 27,091 |
| Southern Home Ownership | **72,850** | 1,432 |
| Spruce Limited | **1,135** | 2,921 |
| Southern Construction Limited | **583** | - |
| Affinity (Reading) Holdings Limited | **1,886** | 1,803 |
| **Grand total** | **76,863** | 33,247 |

In October 2018 the Group successfully issued a £200m Sterling Bond with a final repayment date of 19 October 2047 and paying a fixed coupon of 3.50%. The issuance represents the Group's public Bond debut of long dated fixed-rate debt to the Debt Capital Markets.

In addition to the £200m Bond, the Group issued a further £100m of Retained Bonds which were issued in May 2019, with pricing determined at issuance

At 31 March 2019 the Group had total facilities of £1,469m, of which £836m was drawn. The pie chart below highlights the split between the bank and non-bank debt as well as whether the debt is fixed or variable.

# Group's funding mix as at 31 March 2019




Over half of the Group's drawn facilities are from Capital Markets, either from direct issuance or aggregated issuances, with the balance being bank debt or local authority loans. The Group has a weighted average cost of capital of 4.17%.


The Group's debt contains a mix of fixed and variable rates.

| Debt Type | Sum of outstanding £m | % |
|---|---|---|
| Fixed | 739 | 89% |
| Variable | 97 | 11% |
| **Grand total** | 836 | 100% |

In May 2018, as part of the debt restructure, the Group terminated its £100m standalone swaps and consequently no longer has any standalone interest rate or inflation swaps on the balance sheet. The standalone swaps were defined under accounting rules as ineffective and therefore the negative mark to market valuation has already been written off in the prior year. Consequently, the breaking of the standalone swaps has resulted in a £3.6m debit on the Statement of Comprehensive Income within the current year surplus.

As at the 31 March the Group had liquidity of £675m.

# Summary of the Group's liquidity

| Facility | Available £'000 |
|---|---|
| Cash in bank | £41,916 |
| Undrawn bank facilities | £632,980 |
| **Total** | **£674,896** |

# Governance

## The Group's legal structure

Southern Housing Group Limited ("Southern Housing Group" or "the Group"), the parent company, is a charitable organisation and both it and Southern Home Ownership Limited are registered providers of affordable housing and are regulated by the Regulator of Social Housing.

Southern Space Limited develops properties for outright sale, generating profits for the Group to reinvest and has a one third share in Triathlon Homes LLP, which owns and manages over 1,300 affordable homes at the East Village, the former Olympic Park.

Southern Housing Group Limited has a total 50% share in Affinity (Reading) Holdings Ltd which in turn holds 100% of Affinity (Reading) Ltd set up to operate a Private Finance Initiative contract to deliver refurbishment, management and maintenance of 1,318 Reading Borough Council homes.

Southern Development Services Limited provides project delivery services for companies in the Group.

Spruce Homes Limited is a wholly owned subsidiary of Southern Housing Group Limited. Spruce Homes Ltd commenced trading in June 2017 providing homes for private rent.

Southern Housing Construction Ltd is a wholly owned subsidiary of Southern Housing Group Limited and provides construction services to the Group.

# The Group's governance and management structure in 2018-19


# The Board

The Group's Board is collectively responsible for the long-term success of the Group. The Board has a formal schedule of matters specifically reserved for the Board's decision. These include matters relating to:

- Overseeing and directing Southern Housing Group's activities, including formulating strategies and plans.
- Determining the nature and extent of the significant risks it is willing to take in achieving the Group's strategic objectives. It maintains a sound risk management framework and a prudent and effective system of internal controls.
- Maintaining oversight of the Group's subsidiaries' and committees' work.

The Board meets at least four times a year to address operational and business activities and holds at least one annual seminar to discuss strategic issues.

The Board has overall responsibility for the administration of sound corporate governance throughout the Group and recognises the importance of maintaining a strong reputation for the Group.

# Southern Housing Group Board members

## Arthur Merchant
Chair of the Board

Arthur is a former partner and Head of Housing for Grant Thornton UK PLC. He specialised in the provision of external and internal audit, business planning, governance and risk management services to the housing sector for over 20 years. His client portfolio also included the local authority, NHS and Education sectors. He is a qualified accountant [CIPFA] serving as a member of their housing association panel for over 10 years. Arthur is an experienced non-executive Director having served on the Boards of the Hertfordshire Chamber of Commerce, Mind and three other large housing providers. His experience includes Chairing Audit and Treasury Committees and being part of the non-executive working group/Committee successfully achieving substantial renegotiation of loan covenants and refinancing at two housing associations. He has been a regular speaker at major housing events and conferences.

## Robert Clark

Robert Clark has been a qualified member of RICS since 1974. He retired as CEO of Durkan Ltd in 2016. As Managing Director and CEO, he was responsible for the management of all construction projects, business planning and HR management. His board & committee experience has included joint venture companies, housing associations, construction skills training, The Housing Forum and The Hertfordshire Housing Conference.

## Mary Watkins
Baroness Watkins of Tavistock

Mary is the Senior Independent Director (SID). She has extensive board experience in the housing and health and social care sectors, including another housing provider and chaired the Quality and Governance Committee at South Western Ambulance Service Foundation NHS trust where latterly she was Deputy Chair and SID. Her experience has involved significant changes to the businesses in which she has been a board member including the amalgamation of two NHS providers and two housing associations. She is a qualified nurse, has held a University Senior Deputy Vice Chancellor position and published extensively in the fields of health and social care. She is a Visiting Professor at King's College London. She was appointed a Cross Bench Life Peer in 2015 and speaks regularly on housing issues.

## Janet Collier

Janet is Chair of the Audit Committee and a CIPFA accountant with over 30 years public sector experience. She has worked at a number of local authorities in both housing and corporate finance, and was previously Deputy Chief Executive and Director of Finance at City West Homes. She has also worked as a consultant providing financial consultancy and training for public sector organisations, especially on social housing finance and Value for Money. She is now an experienced non executive having been a Board member and Chair of Audit Committee at another housing association, and is currently also a Board member and Chair of Audit and Risk at Advance Housing and Support.

## Maureen Corcoran

Maureen is Chair of the Customer Services Committee. She has over 30 years' experience in housing and community development. She started as a tenant and community activist in the Coin St and other London housing campaigns and went on to work professionally in housing, including as Head of Housing for London in the Audit Commission's inspection service. Maureen is a Churchill Fellow, currently researching rented housing in Germany with the aim of bringing back lessons to the UK. She is a member of the Chartered Institute of Housing and Chair of another housing association. Maureen also works as a Blue Badge qualified tourist guide specialising in walks discovering London's hidden history.

## Joanna Hawkes

Jo has over 30 years' experience in the private sector having worked with a number of blue chip companies in differing sectors in corporate finance and treasury roles. This has included asset finance roles within Hilton International and as treasurer of rolling stock lessor Angel Trains. For the last three and half years she has been Group Treasurer of Marks and Spencer plc with responsibilities for the global treasury, pensions investments , captive insurance, M&S Bank and partnering business services. She is a fellow of the Association of Corporate Treasurers and a qualified accountant. She is also Chair of the Finsatra DB pension scheme.

## Simone Buckley

Simone joined the Group Board in July 2015. She was previously Chair of the Group's South Region Resident Services Panel and is a Customer Services Committee Member. Simone has over fifteen years' experience working within blue chip organisations both in the UK and Australia, specialising in change management, communications and business integration.

## Carol Rosati
OBE

Carol has over 25 years' experience of talent management and workforce development. As a trained executive coach, she supports and helps individuals to achieve their full potential. She also works with many organisations to promote diversity of thought and better-balanced teams, using her accumulated knowledge to deliver workshops and round tables. She is a frequent speaker/panelist/Chair at corporate events and an advocate for improved gender diversity and inclusion. In 2008 she founded Inspire, a business network, which connected over 8000 board level businesswomen globally across four continents. She was awarded an OBE in the Queen's 2015 Birthday New Honours List for Services to Women in Business and included in the Global Top 50 D&I professionals list in 2016 & 2017 and the Cranfield Female FTSE Board Report 100 to watch. Carol has been a Non-Executive Director since 2014 and the Chair of our Remuneration and Nominations Committee since 2016 and Chair of Spruce Homes. She is a Trustee of UN Women UK National Committee and sits on their Risk Governance and Finance Committee. She is also Chair of One Loud Voice.

## Alan Townshend

Alan Townshend has over 31 years of experience in the affordable housing sector, working with both public and private companies and running his own consultancy firm. Alan became chief executive in September 2018, having previously been Group Development Director for three years. Prior to joining the Group, Alan worked at Wandle Housing, initially joining as its Asset Investment Director before being appointed Interim Chief Executive Officer and overseeing the operational and strategic side of the business. His other roles include seven years at Circle Group as Group Regional Operations Director. Alan is a member of the Chartered Institute of Housing.

## James Francis

James was Group Finance Director during 2018-19. He has held Board-level Finance Director positions in G15 organisations since 2010. Prior to working in the housing sector, James spent 8 years in corporate finance and accountancy where he qualified as a Chartered Accountant in 2004.

## Members who retired or resigned during the year:

Tom Dacey
Steve Johnson
Michael McDonagh
Paul Rees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# Appointments and current annual payment rates

Southern Housing Group Limited Board members are paid for their services. This increases our ability to attract and retain high-calibre members and to improve mechanisms for their performance appraisal and development.

The Remuneration and Nominations Committee last reviewed Board member remuneration in July 2017.

# The Remuneration and Nominations Committee appointment process

The Remuneration and Nominations Committee has delegated authority from the Board to oversee all Board and Committee appointments and succession planning.

- The Committee maintains a skills matrix for all Board and Committee functions.
- Conducting regular gap analysis, the Committee identifies when the need to recruit arises.
- Where a new appointment is required the Committee conducts a search for candidates through a number of appropriate channels, including open advertising via social media platform LinkedIn and paid advertising in recognised non-executive websites.
- Recommendations are then made to the Group's Board for final approval.
- Board and Committee appointments are made on merit, against objective criteria and with due regard to the Group's equality and diversity policy.
- Appointment letters contain details of the time commitment required for the position.
- On appointment a declaration of other interests is made and renewed annually and where there are any changes through the year.

| Role | |
|---|---|
| Group Chair | £25,000 |
| Member and Chair of Committee or subsidiary Board | £12,000 |
| Member | £10,000 |
| Additional payment for Senior Independent Director | £2,000 |
| Independent Committee member | £3,000 |

The Group's policy on equality and diversity is that all candidates must be treated as individuals, irrespective of ethnicity, nationality, national origins, disability, sexual orientation, religion or belief, marriage or civil partnership, family circumstances, political beliefs, gender, gender reassignment, pregnancy or maternity status, trade union membership, age, or any other unfair distinction.

## Directors' and officers' liability insurance cover

The Group maintains liability insurance cover for its directors and officers comprising the standard cover provided as part of its National Housing Federation membership fee and takes an additional £5m in cover under a separate independent policy.

# Committees

The Board delegates authority in certain matters, according to specific terms of reference, to five committees. Committee members bring a wealth of experience and different skills to the organisation, providing a clear overview which helps to focus the Group's management on achieving its strategic objectives. Each committee meets at least four times a year.

## Audit Committee

- The Audit Committee recommends the appointment or reappointment of our external auditors, considers the audit approach taken and reviews findings. The appointment of the external audit firm is re-tendered at regular intervals. The current firm (PricewaterhouseCoopersLLP) was appointed in 2012-13 following a competitive tendering process.
- The Committee receives and reviews in detail the annual financial statements, budgets and the business plan and stress testing before recommending them to the Board.
- The Committee regularly reviews the "top corporate risk register" and considers other risk awareness documentation.
- It also considers all internal audit and similar reports and provides constructive challenge to the Executive Management Team (EMT) on internal audit findings.

## Remuneration and Nominations Committee

The Remuneration and Nominations Committee is responsible for:

- Reviewing and recommending Board and Committee remuneration.
- Appointment and succession planning: ensuring there is a plan for the orderly succession of new appointments to the Board and Committees to maintain an appropriate balance of skills and experience within the Group's governance structure.
- Overseeing the Group's pension strategy and arrangements.
- Approving the Group's salary structure and reward scheme.
- Ensuring there is an appropriate induction and training framework in place for Board and Committee members.

## Treasury Committee

The Treasury Committee considers in detail all aspects of treasury management, setting and monitoring treasury policy and ensuring funds are available to deliver the Group's business objectives, both in the short and long-term.

This Committee ensures that loan covenants are complied with, liquidity is maintained in line with policy and agrees intra-group lending arrangements.

## Group Development Committee

The Group Development Committee considers matters relating to the development and investment strategy of all the Group's companies, including new property developments and stock reinvestment.

## Customer Services Committee

The Customer Services Committee is responsible for considering all matters relating to the effectiveness of the services provided for our customers. In line with the Group's governance framework, the Customer Service Committee reviews significant issues raised through formal engagement with customers.

## Board performance evaluation

The UK Corporate Governance Code requires large, listed companies (FTSE 350) to have an externally-facilitated Board performance evaluation every three years.

The Group's Board has a strong commitment to corporate governance. In 2017 the Group engaged an independent consultant, George Bartlett Limited to conduct a formal and rigorous performance evaluation of the Board of Southern Housing Group, its committees and individual directors.

The methodology employed for the evaluation included: observation of a Group Board meeting; a briefing for Board members on the objectives; process and prospective output of the evaluation; completion by the Board members of a comprehensive online questionnaire; an interview with each Board member; a detailed report; and a facilitated discussion for the Board members on the conclusions and recommendations in the report.

In June and July 2019 the Senior Independent Director (SID) and the non-executive directors consulted without the officers or the Chair of the Board present, to appraise the Chair's performance. The SID was supported in this by the Company Secretary.

The Chair of the Board met with the non-executive directors without officers present after the Board meeting in May 2018 and 2019 in line with the requirements of UK Corporate Governance Code.

## Attendance records in 2018/19

| | SHGL Board | SHGL Board Seminars | SHGL Committees | | | | | Spruce Homes Ltd Board | SHCL Board | SSL Board | SDSL Board | SHO Board | Members who joined or retired/resigned for the year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | R&N | Treasury | Customer Services | Audit | Group Development | | | | | | |
| Steve Aleppo | | | | | | 2/3 | | | | | | | Joined 01/09/2018 |
| John Andrew | | | | | | 4/4 | | | | | | | |
| Jaiprakash Agrawal | | | | 4/5 | | | | | | | | | |
| Oliver Boundy | | | | | | | 3/3 | | 4/4 | | 1/1 | 3/3 | Joined GDC, SHO, SHCL,SDSL 07/09/2018 |
| Julie Blair | | | | | | | 1/1 | | | | | | Joined 10/12/2018 |
| David Brewer | | | | | | | 3/4 | | | 2/2 | | 3/4 | |
| Simone Buckley | 5/5 | 2/2 | | | 4/4 | | | | | | | | |
| Sarah Chaudhry | | | | | | | 4/4 | | | | | 4/4 | |
| Robert Clark | 5/5 | 2/2 | | | | | 3/4 | | 3/4 | 1/2 | | 3/4 | |
| Janet Collier | 2/3 | 1/1 | | | | 3/3 | | | | | | | Joined SHGL 01/09/2018 |
| Maureen Corcoran | 5/5 | 2/2 | | | 4/4 | | | | | | | | |
| Tom Dacey | 2/2 | 1/1 | | | | 1/1 | 0/1 | 1/1 | | | 1/1 | 0/1 | Retired SHGL, Spruce, SHO 31/08/2018 |
| Jay Doraisamy | | | | | 1/3 | | | | | | | | Resigned CSC 07/01/2019 |
| Mark Edwards | | | | | 2/3 | | | | | | | | Joined CSC 09/07/2018 |
| Oliver Eiss | | | | 5/5 | | | | 3/3 | | | | | |
| Sara Ensor | | | | 4/4 | | | | | | | | | |
| James Francis | 5/5 | 2/2 | | | | | 4/4 | | | 2/2 | | 4/4 | |
| John Furmidge | | | | | 4/4 | | | | | | | | |
| Abi Gray | | | 4/4 | | 3/4 | | | | | | | | |

| | SHGL Board | SHGL Board Seminars | SHGL Committees | | | | | Spruce Homes Ltd Board | SHCL Board | SSL Board | SDSL Board | SHO Board | Members who joined or retired/resigned for the year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | R&N | Treasury | Customer Services | Audit | Group Development | | | | | | |
| Chris Harris | | | | | | | | | 4/4 | | | | |
| Deborah Harris-Ugbomah | | | | | | 3/3 | | | | | | | Joined 01/09/2018 |
| Joanna Hawkes | 5/5 | 2/2 | | 5/5 | | | | | | | | | |
| Alan Head | | | | | | | 3/4 | | 3/4 | | | 3/4 | |
| Steve Johnson | 2/2 | 1/1 | | | | | | | | | | | Retired SHGL 09/07/2018 |
| Margaret Littlejohns | | | | | | | 3/4 | | | | | | |
| Deborah Mansfield | | | | | | | | | | | | | Joined 04/03/2019 (no meetings) |
| Michael McDonagh | 1/1 | | | | | | | | | | | | Joined 11/05/2018 Resigned SHGL 11/06/2018 |
| Arthur Merchant | 5/5 | 2/2 | 4/4 | | | | | | | | | | |
| Karen Moscrop | | | | | | 4/4 | | | | | | | |
| Darrell Porter | | | | 5/5 | | | | | | | | | |
| Martin Potter | | | | | | 3/3 | | | | | | | Joined 01/09/2018 |
| Paul Rees | 2/2 | 1/1 | | | | 1/1 | | | | | | | Retired SHGL 09/07/2018 |
| Ahmereen Reza | | | | | 4/4 | | | | | | | | |
| Carol Rosati | 5/5 | 2/2 | 4/4 | | | | | 3/3 | | | | | |
| Alan Townshend | 3/3 | 1/1 | | | | | 3/4 | 2/2 | 1/1 | 1/2 | 2/2 | 3/4 | Joined SHGL, SSL, Spruce, SHO 01/09/2018 |
| Emma Trinder | | | | | | | | 1/1 | | | | | Joined 10/12/2018 |
| Mary Watkins | 2/3 | 1/1 | 1/1 | | | | | | | | | | Joined SHGL 09/07/2019 |

# The Executive Management Team (EMT)

EMT has executive responsibility for running the Group's business, implementing the strategic direction set by the Board within the Board's risk appetite.

## The Executive Management Team members during 2018-19

**Tom Dacey**
Group Chief Executive
(retired 31 August 2018)

**Alan Townshend**
Group Chief Executive
(from September 2018)

**Chris Harris**
Group Customer Services Director

**James Francis**
Group Finance Director
(resigned May 2019)

**Simon Goulding**
Group Director of Compliance
(retired March 2019)

**Oliver Boundy**
Group Development Director
(appointed September 2018)

# Risk

Managing risk is fundamental if the Group is to meet its corporate challenges. We have embedded a risk management culture that identifies and mitigates potential current risks whilst exploring future opportunities.

## Risk governance and risk appetite

Risk oversight is the Board's responsibility, with the Audit Committee undertaking a more detailed review of risks that might adversely affect the business' viability or reputation. While the Board accepts some risk is inevitable and that perfect risk avoidance is neither possible nor necessarily desirable, we believe that risks related to health and safety, financial viability and reputation must be managed and mitigated actively to minimise their likelihood.

The potential cost and reputational damage a risk could have on the Group determines our risk appetite and we expect high-level controls to be set out clearly, implemented and reviewed. More operationally, staff and managers weigh the mitigation costs against the likely risk impact to determine our risk appetite and controls may be formal or informal, depending on need and appropriateness. The external environment (legal, regulatory, economic and political), our internal strengths and areas for improvement as well as our financial capacity also influence our risk appetite.

The Group has paid particular attention to its resilience to corporate risks affected by Brexit, and its impact on the property market and workforce supply.

## Risk and assurance framework

The Compliance Team leads the Group's combined risk and assurance framework and provides a systematic risk and assurance service.

## Risk management

The Group ensures that risks are owned and managed by the directorates in which they are most evident.

Financial risks are analysed and managed through the budgeting, planning and financial reporting processes, and staff manage operational risks on estates based on estate inspection procedure. Our dedicated Health and Safety Team manages risks to our residents and employees while the Technology Services and Governance Teams manage risks around data and cyber-attacks, backed up by dedicated insurance cover.

Our Risk and Assurance policy sets out how we map and score significant risks to the Group. Risks are recorded on a risk register, together with existing mitigation control and potential control improvements.

The Executive Management Team considers the key risks to the Group regularly throughout the year and may add to the register at any time. Existing risks are considered in light of current circumstances and changes in controls.

The Audit Committee and the Board review the top risk register every meeting cycle.

# Key risks

The following table sets out what the Group believes to be the key risks to be managed at the date of this report.

| Risk | Mitigation |
|---|---|
| Serious health and safety incident combined with the failure of controls. | 1. Relevant servicing and maintenance procedures in place.<br>2. CDM inspection arrangements involving specialist internally appointed staff.<br>3. Fire regulation approach standardised with in-house Fire Risk Assessors utilising Keystone.<br>4. Estate inspections include health and safety issues.<br>5. Specialist water hygiene testing undertaken in identified blocks.<br>6. Lift contract in place with inspections also undertaken by the Group's Insurer.<br>7. Asbestos surveys for all properties including garages have been completed.<br>8. Delivery of effective asbestos training and development programme in place and ongoing.<br>9. Robust contract reviews and performance monitoring in place.<br>10. Board appraised of revised Out of Hours emergency response.<br>11. Internal Audit on External Disaster Recovery completed Q2 2018.<br>12. New gas contractors as of Sept '18.<br>13. Fire door replacement programme speeded up and ongoing.<br>14. New H&S network established. |
| Difficulty in recruiting and retaining staff in specialist and technical functions, compounded by skilled labour leaving the EU as a result of Brexit. | 1. The Group's contractor framework in place.<br>2. The Group's working with contractors who have direct labour and closely monitoring labour on site and progress against programme.<br>3. Direct impact on Care & Support assessed as minimal.<br>4. Approved changes to in-house repair team reward to retain staff.<br>5. HR team have collated data on our present workforce in relation to the 'right to work in the UK'. |
| London & SE Property market goes through a cyclical re-adjustment which results in a slow down in sales and a reduction in property prices. | 1. Engagement of the Group Board and Executive Management Team anticipates and responds to any Brexit downturn.<br>2. Corporate Plan has been stress tested to include significant downturn scenarios.<br>3. Revised funding structure can support the business plan and provide headroom for a market downturn.<br>4. Ability to slow development programme.<br>5. Ability to change tenure.<br>6. Stress testing and analysis on Brexit. |
| Barriers to sustaining and growing Group's income | 1. Rent set in line with Legal and Regulatory framework.<br>2. Arrears and occupancy proactively managed and monitored including impact of Universal Credit.<br>3. Sales strategy targets areas and values less susceptible to market correction.<br>4. Asset Review Panel established to facilitate rational disposal of units.<br>5. Financial inclusion work undertaken by a team of 11.<br>6. Service charge 'quick wins' approved by Committees & Boards and included in 2019/20 budget.<br>7. Budget includes £1m savings to offset impact of final year of rent reductions.<br>8. EMT routinely review KPIs relating to income. |
| The Group fails to achieve compliance with the General Data Protection Regulation (GDPR). | 1. Fully resourced GDPR project team.<br>2. Data Protection Officer (DPO) and Programme Manager are qualified GDPR practitioners.<br>3. Information risk register in place.<br>4. Data Protection and Information Governance structures in place. |
| Our reputation and brand is compromised because we are the subject of adverse media and social media coverage and there is a failure to manage our response effectively, leading to loss of investor confidence, damage to trust with our residents and loss of credibility amongst stakeholders. | 1. Agreed Corporate Communications Strategy 2017-2020 is in place.<br>2. Communications team monitors communications and engages internal and external audiences.<br>3. Communications team deals with external issues reactively as they arise as far as possible with existing resources.<br>4. Access to external advisors provides ad hoc communications resources for emergency communications needs.<br>5. Communications team provides an out of hours media and social media monitoring service. |

## Risk scenarios and stress testing

The Group uses enhanced risk scenarios to stress test the business to determine where financial, operational and reputational weaknesses might occur in extreme adverse operating conditions. The outcome from this testing enhances our internal processes in mitigating these risks.

## Internal audit

Each year, the Audit Committee agrees a programme of internal audit for the forthcoming financial year, which is designed to ensure discrete areas of the business and areas of significant risk are audited regularly. KPMG, our internal auditors, carries out the Group's audits.

## Internal controls assurance

In addition to our risk management and audit work, the Group keeps a register of key control areas and details of the controls in place, which is reviewed and updated annually. Each year, the Board reviews the internal controls assurance report and framework.

## Assets and liabilities register

There is a regulatory requirement to maintain an assets and liabilities register. The Executive Managment Team (GST) and Audit Committee review the register quarterly and the Board reviews it on an annual basis.

## Going concern statement

When preparing their financial statements, the directors of Southern Housing Group Limited (the Group) are required to formally review and consider whether the association and the group are a going concern. The directors of the subsidiaries undertake a similar exercise for the subsidiaries.

The Group puts together a robust budget for the following year, which informs the first year of the thirty year business plan ("Long Term Financial Plan"). This together with the associated cash flow and the treasury policy of maintaining sufficient liquidity to cover the next 18 months committed cash flow, excluding any sales receipts, support the directors' assessment of going concern.

Additionally, the Group's ability to withstand the Board approved Stress Test without breaching its covenants is actively monitored by the Executive Management Team (EMT) on a fortnightly basis and reported quarterly to the Group's Audit Committee. This provides regular assurance as to the Group's ability to withstand external economic shocks, meet its liabilities as they fall due and remain financially strong.

Based on the considerations above, the financial statements for 2018-19 have been prepared on a going concern basis.

## Viability assessment

The Group prepares a thirty-year business plan ("Long-Term Financial Plan") to demonstrate the Group is effectively managing its resources to ensure long term financial sustainability is maintained whilst also safeguarding social housing assets. A separate Long-Term Financial Plan is prepared for each Group subsidiary. Stress Testing is then performed at a group level considering the current position of the Group and its principal risks, to assess the future prospects of the Group over the first five years of the plan.

The Group's stress testing goes beyond simple sensitivity testing and includes multi-variant analysis which tests against potential serious economic and business risks.

In total sixteen separate sensitivities and five scenarios were considered. These were based on those previously identified by the Board at a dedicated stress testing workshop in May 2018 and reaffirmed by the Board at its away day in November 2018. The stress tests focus on the first five years of the Long-Term Financial Plan reviewing the impact of:

- Interest rates and liquidity
- Inflation and economic risk
- Political risk
- Effect of welfare reform
- Market risk on sales income, and
- A number of multivariate scenarios.

The Group has identified a number of actions available to mitigate the impact of some of the risks considered and quantified through the stress testing. It is satisfied that they would be able to implement the required steps should the need arise to protect the social housing assets and organisation whilst being compliant with regulatory requirements now and in the foreseeable future.

The Long-Term Financial Plan reflects the Group's financial strategy to optimise capacity for investment in its corporate strategy objectives while remaining compliant with the Board's risk appetite (which has been updated to reflect the risks contained within the Group's Brexit Resilience Plan).

Based on the results of Long-Term Financial Plan stress testing (viability assessment) and the Group's liquidity position, the Board has the reasonable expectation that the Group has the financial capacity to deal with a wide range of adverse scenarios and that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period which the Board has considered as part of its assessment of the Group's future prospects.

# Liquidity position

As with financial viability, the Group's liquidity position is actively monitored by the Executive Management Team on a fortnightly basis and reported quarterly to the Group's Audit Committee to provide regular assurance as to the Group's ability to withstand external economic shocks; meet its liabilities as they fall due; and maintain strong financial viability.

At the financial year end the Group has fully secured and available to draw funding arrangements of £674,896 including a bridging facility provided by HSBC which provided forecast headroom of £329,818 against the Group's liquidity policy.

| **Group Liquidity Management** | Mar-19 £000 | May-19 £000 |
|---|---|---|
| Undrawn facilities and Cash investments | 674,896 | 709,545 |
| **Forecast headroom against the Group's liquidity policy** | **329,818** | 273,828 |

Subsequent to the financial year end, the Group successfully priced £100m of Retained Bonds in two separate tranches which is not included in the Group liquidity calculations as the funding is not contractually guaranteed. This has increased the Group's fully secured and availability to undrawn funding arrangements to £709,545 (net of funding drawn) and the Group's latest liquidity is forecast to provide headroom of £273,828m against the Group's liquidity policy.

# Audit committee report

# Purpose of the report

The Audit Committee has the delegated authority from the Boards of Southern Housing Group Limited and its subsidiaries to oversee the Group's audit function, monitor the integrity of the financial statements, and review the Group's internal control and risk management systems. The Group has adopted the 2016 UK Corporate Governance Code.

## Compliance with the terms of reference

| Principal areas of responsibility for the Audit Committee | Issues addressed in the year |
|---|---|
| Ensuring the systems of internal control the Group employs are satisfactory and work effectively | 1. Risk strategy, top risks and management mitigations reviewed quarterly.<br>2. Areas and instances of potential fraud and speaking up were reviewed, together with control and process improvements.<br>3. Reviewed a report on internal control assurance.<br>4. Reviewed compliance with 2016 UK Corporate Governance Code. |
| Monitoring and reviewing the work of the internal audit function (outsourced to KPMG LLP) | 1. Reviewed the annual cycle of internal audit reviews, aligning to the corporate risk map and timing of previous reviews.<br>2. Reviewed progress against previous internal audit recommendations. |
| Selecting the external auditors, monitoring their performance and approving the provision of non-audit services | 1. Recommended the re-tender of the external audit function, and approved the reappointment of PricewaterhouseCoopers LLP in the meantime.<br>2. Reviewed the management letter the auditors presented and management's responses to this.<br>3. Reviewed compliance statement.<br>4. PricewaterhouseCoopers LLP acted as reporting accountant for the bond issue during the year and provided tax compliance services to Triathlon Homes LLP. These were approved in line with the Group's approved policy and procedures ensuring that PricewaterhouseCoopers LLP's objectivity and independence was safeguarded. |
| Monitoring the Group's financial performance | 1. The Group's long term business plan and detailed stress testing was reviewed during the year.<br>2. Reviewed the annual budget and recommended its adoption to the Group Board.<br>3. Each meeting of the Committee reviewed financial performance with explanations of key variances.<br>4. Reviewed the production, content and format of the Annual Report and Group Financial Statements and recommended its acceptance to the Group Board. |
| Regulatory compliance | 1. Reviewed regulatory compliance. The Group is regulated by the RSH Regulation Committee, which uses in-depth assessments (IDAs) as its key regulatory tool. |
| Other | 1. The Audit Committee's terms of reference were reviewed in line with the annual review cycle.<br>2. The Group's financial regulations were reviewed in line with the annual cycle and recommended some minor amendments.<br>3. The Committee regularly reviewed the Assets and Liability Register quarterly. |

# External audit

The appointment of the Group's external auditors is re-tendered in line with best practice. In accordance with its terms of reference, the Committee annually reviews the Group's external audit requirements and considers the external auditors' independence and performance before recommending to the Board their re-appointment.

During the financial year, the Committee has:

- Considered information presented by management on key matters on accounting judgements and policies, and agreed their appropriateness.
- Discussed with PwC the firm's reports and noted the key matters and significant judgements highlighted by PwC in respect of each set of financial statements. These reports were considered and approved.

# Internal audit

During the 2018/19 audit year KPMG conducted 12 audits, of which two were advisory. No areas audited were graded as 'no assurance', which is consistent with the previous year. The contract with KPMG has been concluded.

From 1 April 2019, the Group has outsourced its internal audit requirements to Mazars, which has expertise in both financial auditing and the Group's regulatory environment.

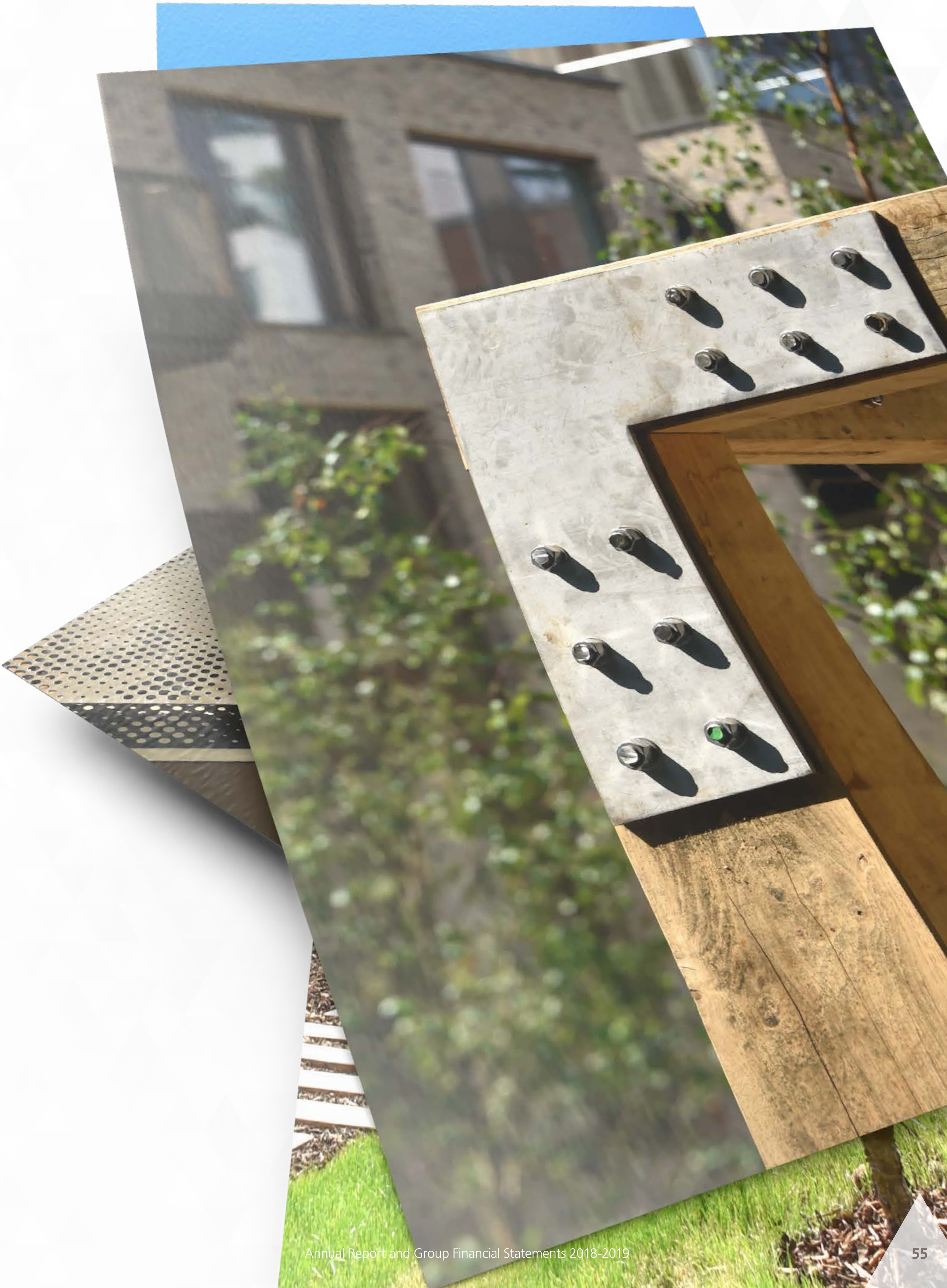
In accordance with the audit plan for 2019/2020, the Audit Committee will receive 11 audit reports during the year.

The Committee receives quarterly updates on the progress of the audit programme, and the implementation of the recommendations made by the internal auditors.

# Accounting policies

The Committee, together with the external auditors, considered the requirements of the FRS 102 framework and Statement of Recommended Practice for registered housing providers adopted by management to ensure the financial statements present a balanced and appropriate view.

**Janet Collier**
Chair of Audit Committee
15 July 2019



# Report of the Board

# Statement of the Board's responsibilities

The Board is responsible for preparing the annual review and the financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Private Registered Provider (PRP) and of the surplus or deficit for that period. In preparing these financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently
- Make judgments and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the PRP will continue in business

The Board is responsible for keeping proper accounting records that are sufficient to show and explain the PRP's transactions and disclose with reasonable accuracy at any time its financial position. This is designed to enable the Board to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and Regulations thereunder, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing in England 2019, issued by the Regulator of Social Housing.

The Board is also responsible for safeguarding the assets of the PRP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Southern Housing Group Limited confirms that the annual report has been prepared in accordance with the principles set out in paragraphs 4.6 and 4.7 of the 2014 Statement of Recommended Practice for registered social landlords.

The Board confirms that the Group has assessed its compliance with the Governance and Financial Viability Standard at least once during the year and certifies that the Group is in compliance with it.

The Board members who served during the year are listed and attendance at meetings is recorded on page 44 and 45.

Board members serve as independent non-executive directors, with the exception of the Group Chief Executive and the Group Finance Director.

All of the Group's non-executive directors meet the independence criteria set out in provision B1.1 of the Code. Following the adoption of the Code they may serve a maximum of two continuous terms of three years.

# Statement of internal control

## Corporate governance

Southern Housing Group Limited has adopted the UK Governance Code (the Code) as its chosen code on a "comply or explain basis".

The rules of Southern Housing Group (the Rules) detail how the company is governed.

The Rules state that only members of the Group's Board can be admitted as shareholders. Accordingly, references in certain provisions within the Code relating to shareholders are not applicable to the Group and are not complied with as a result.

**Provisions of the Code not applicable to the Group are set out below:**

| Code paragraph reference | Code requirement | Explanation |
|---|---|---|
| B7.1 | Annual re-election of directors | Governed by the rules of Southern Housing Group Limited |
| B7.2 | Election of non-executive directors by shareholders | Governed by the rules of Southern Housing Group Limited |
| D1.5 | Notice and contractual periods offered to directors | Not applicable |
| D2.4 | Long term incentive plans | Not applicable |
| E1/ E2 | Dialogue with shareholders | Not applicable - all shareholders are board members as per the rules of Southern Housing Group Limited |

# Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Group operates ongoing processes for identifying, evaluating and managing the significant risks that it faces. They have been in place for the year to 31 March 2019 and up to the date of the approval of the Annual Report and the Financial Statements. The Board reviews processes at least annually, while the Audit Committee reviews them twice a year.

# Main policies in place to provide effective internal control

## Risk assessment

The Group's objectives are established within the context of the Group's Corporate Strategy. There is a process of cascading these objectives throughout the Group to each operational team and to individual staff members' targets. Assessment of resultant risk is mapped for each Group member organisation. The Group's risk management strategy includes requirements for formal risk assessments to be presented to the Board for discussion and approval. The Audit Committee fulfils this function.

## Control environment

Authority, responsibility and accountability are set out in the following ways:

- Standing orders and delegated authorities
- Policies and procedures manuals in all key areas
- Codes of conduct for Board and Committee members, and for staff
- Staff job descriptions and supervisory procedures

## Information

There is a timely system for reporting progress in the Group, at many levels. The Boards and their sub-committees receive regular and extensive reports on all key areas of performance.

## Monitoring

The Group has a comprehensive internal audit programme. It is undertaken by KPMG LLP, chartered accountants. The internal audit programme is designed to review key areas of risk for the Group. The internal auditors report to the Director of Governance. Each audit assignment is sponsored by a senior director who approves the scope of the work and takes responsibility for ensuring recommendations are acted upon. Group-wide progress on completing work on recommendations is monitored by the Compliance Team. KPMG LLP meet quarterly with the Group Chief Executive and report to each meeting of the Group Audit Committee on their recent and prospective activity. They also meet informally with the Chair of the Audit Committee.

The risk management process incorporates reviews of high-level risks across the Group, including the identification of newly emerging risks. Both the internal audit and risk management activities incorporate follow-up reporting on actions identified for improving the Group's control environment.

## Review of effectiveness

The Board has reviewed the effectiveness of the Group's internal controls through the work of the Audit Committee, which regularly reports to the Board. In addition, the Group Chief Executive has submitted to the Board a detailed report on the operation of internal controls during the period under review and up to the date of approval of this report.

The Board confirms no weaknesses were found in the internal controls for the year ended 31 March 2019 that might otherwise have resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements.

## Independent auditors

A resolution is to be proposed at the annual general meeting for the position of Group independent auditor to be re-tendered for appointment.

## Statement as to disclosure to auditors

Each individual who is a director at the date of approval of this report confirms that:

- They consider the annual report and accounts as a whole to be fair, balanced and understandable, and that they provide the information necessary for stakeholders to assess the Group's performance, business model and strategy.
- So far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware.
- They have taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

**Arthur Merchant**
Chair
On behalf of the Board
15 July 2019

# Independent auditors' report

to the members of Southern Housing Group Limited

# Report on the audit of the financial statements

## Opinion

In our opinion, Southern Housing Group Limited's group financial statements and association financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the association's affairs as at 31 March 2019 and of the group's and association's income and expenditure, and of the group's cash flows, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2019.

We have audited the financial statements, included within the Annual Report and Group Financial Statements (the "Annual Report"), which comprise: the consolidated statement of financial position as at 31 March 2019; the consolidated statement of comprehensive income, the consolidated statement of changes in reserves, and the consolidated statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the association.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the group or the association in the period from 1 April 2018 to 31 March 2019.

## Our audit approach

### Overview


- Overall group materiality: £2,304k (2018: £1,997k), based on 1% of turnover.
- Overall assoociation materiality: £1,849k, based on 1% of turnover (2018: £1,897k based on 0.9% of turnover).

- The group comprises six trading entities, two joint venture entities and one joint venture operation.
- We conducted a full scope audit of the six trading entities which included the group's share of the joint venture operation. We engaged a component team to conduct a full scope audit of one joint venture entity, while the other joint venture entity was not significant from the perspective of the group.
- These audit procedures covered 100% of group turnover and 100% of group total assets.

- Impairment of housing properties (group and association).
- Valuation of stock (group and association).
- Classification and valuation of investment properties (group and association).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Regulator of Social Housing's regulatory framework, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2019. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate journal entries to increase the reported operating surplus, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditor so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditor included:

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation (in particular, considering the Regulator of Social Housing's gradings) and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment of housing properties, valuation of stock and classification and valuation of investment properties (see related key audit matters below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or that could indicate property sales were duplicated.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment of housing properties**<br><br>Group and association<br><br>See note 1 of the financial statements for the group's and association's disclosure of the related accounting policies, judgements and estimates relating to the impairment review undertaken and note 10 for an analysis of property, plant and equipment.<br><br>The housing property assets of the group include:<br><br>• £1,794,872k of completed housing properties held at cost less depreciation (2018: £1,703,092k); and<br><br>• £131,045k of housing properties under construction measured at cost (2018: £137,466k).<br><br>All housing property assets are subject to an impairment review if an impairment trigger event occurs.<br><br>Housing properties are held for their service potential, so impairment considerations are focused on whether there has been a loss of service potential during the period.<br><br>No impairment has been recognised in the year.<br><br>The group identified a reduction in the useful economic lives of assets relating to two schemes due to the group's intended redevelopment of the sites. | We obtained the group's impairment assessment for housing properties to ensure all impairment indicators were identified.<br><br>Management's assessment identified potential impairment indicators relating to two schemes that were held for their service potential. We considered if the schemes were expected to be delivered in line with their approved scheme appraisals and noted there was no reduction to the service potential to be delivered from the schemes. As a result, no impairment was recognised.<br><br>Management's assessment also identified two schemes where the useful economic lives were reduced following decisions to demolish the schemes. We considered management's calculation of accelerated depreciation as a result of this decision and found it to be reasonable.<br><br>For other completed housing properties, we considered management's process to review for impairment triggers and found it was appropriate. No other impairment indicators were identified.<br><br>For housing properties under construction we obtained management's scheme appraisal tracker to identify risk indicators such as delays, additional costs or other indicators that the schemes would not be delivered in accordance with the approved scheme appraisals. No impairment indicators were identified.<br><br>No material exceptions were noted from our testing. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Valuation of stock**<br><br>Group and association<br><br>See note 1 of the financial statements for the group's and association's disclosure of the related accounting policies, judgements and estimates relating to the impairment review undertaken and note 16 for an analysis of stock.<br><br>The stock held by the group comprises:<br><br>• £71,648k of stock currently under construction measured at cost(2018: £56,031k); and<br><br>• £15,711k of completed stock held at cost (2018: £3,527k).<br><br>This was identified as a key audit matter due to the risk that the carrying value of development schemes in progress and unsold properties at the year end may not be recoverable.<br><br>Within the group's development programme, shared ownership first tranche and outright sale properties are classified as inventory. These assets are subject to an impairment review each year to ensure inventory is held at the lower of cost or net realisable value ("NRV"). Indicators of write-downs to inventory assets include where issues are experienced with a contractor or with the progress of a development in terms of costs and/or time resulting in reduced or negative margin, or where completed property assets held for sale remain unsold for an extended period of time. | We obtained the group's impairment assessment for inventory assets to ensure they were held at the lower of cost or NRV.<br><br>We obtained management's scheme appraisal tracker to identify risk indicators such as delays, additional costs or where the expected margin of the development scheme was not profitable or had declined.<br><br>We read a sample of the development contracts to understand any clauses that may impact on the margin of the schemes, such as overage clauses.<br><br>For schemes under construction, we obtained a sample of Board approved scheme appraisals to understand the margin of the schemes and to ensure they remained on forecast to be profitable. This included agreeing costs incurred and estimated costs to complete to supporting evidence, such as contracts. Expected selling prices included in scheme appraisals were agreed to supporting evidence such as recent market data.<br><br>For properties held for resale, we assessed those properties that were unsold at the year end by reviewing the marketed selling prices to understand if a positive margin would still be achieved. We traced a sample of individual properties that were sold after the year end to completion statements.<br><br>No material exceptions were noted from our testing. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Classification and valuation of investment properties**<br><br>Group and association<br><br>See Note 1 of the financial statements for the group's and association's disclosure of the related accounting policies, judgements and estimates relating to the valuation of investment properties and note 11 for further information.<br><br>The group has both market rent residential properties and commercial properties which it holds at fair value. The fair value of investment properties at the year end was £106,934k (2018: £108,944k).<br><br>Properties need to meet the correct criteria to be classified as investment properties at the year-end as this effects the basis on which the properties are measured at either cost or fair value.<br><br>The valuation of investment properties is inherently subjective and involves estimates and judgements for example in relation to the properties nature, location and condition alongside wider challenges currently facing the UK residential and commercial property markets.<br><br>The group engaged an external valuer, Jones Lang LaSalle ("JLL"), to perform the independent valuations at the balance sheet date. | For a sample of properties in the investment properties portfolio, we traced the properties to underlying records to determine that the classification was appropriate. Supporting documentation reviewed included tenancy and lease agreements in place.<br><br>We specifically reviewed the classification of properties reclassified from stock to investment properties as a result of these being let as market rent residential properties at the year end. We considered how these properties were marketed and the group's plans for the future use of the properties. We concluded that the classification as investment properties was appropriate.<br><br>We engaged our internal valuation experts (RICS qualified) to assist us in our audit of this matter.<br><br>We assessed the external valuers' qualifications and expertise and read their terms of engagement with the group. We did not identify any unreasonable special assumptions or unusual caveats or disregards.<br><br>We checked on a sample basis, the accuracy of the underlying lease data used by the external valuers in their valuation by tracing the data back to the relevant signed leases and rent amendment letters.<br><br>We read the external valuation reports for both the residential and commercial portfolios. With the assistance of our valuation experts, we confirmed that the valuation approach for each portfolio was in accordance with RICS standards and suitable for use in determining the final fair values for the purpose of the financial statements.<br><br>With the assistance of our internal valuation experts, we challenged the valuation process, the key assumptions, and the rationale behind the more significant valuation movements during the year.<br><br>No material exceptions were noted from our testing. |

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the association, the accounting processes and controls, and the industry in which they operate.

The group comprises six trading entities, two joint venture entities and one joint venture operation. We scoped all trading entities to audit for Group reporting purposes because they all required individual statutory audits. This included the group’s share of the joint venture operation.

In addition, for one joint venture entity, a non-PwC component team performed a full scope audit under our instructions. The group audit team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported to us. The group audit team approved the component materiality having regard to the size and risk profile of the component. The group audit team specified the nature of the report to be received from the component team.

For the other joint venture entity, we performed analytical procedures over the out of scope component to re-examine our assessment that there were no significant risks of material misstatement within it.

The full scope audits by the group and component team covered 100% of group turnover and 100% of group total assets.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Association financial statements |
|---|---|---|
| **Overall materiality** | £2,304k (2018: £1,997k). | £1,849k (2018: £1,897k). |
| **How we determined it** | 1% of turnover. | 1% of turnover (2018: 0.9% of turnover). |
| **Rationale for benchmark applied** | This is a generally accepted measure applied when auditing organisations with social objectives, to calculate overall materiality. | This is a generally accepted measure applied when auditing organisations with social objectives, to calculate overall materiality (2018: We reduced overall materiality from 1% of turnover to 0.9% of turnover to ensure that the Association materiality was not greater than overall materiality for the group financial statements). |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £12k and £1,899k. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £115k (group audit) (2018: £100k) and £92k (association audit) (2018: £95k) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Going concern

In accordance with ISAs (UK) we report as follows:

| Reporting obligation | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the association's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to.<br><br>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and association's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's and association's activities, customers, suppliers and the wider economy. |

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on pages 47 to 50 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 49 and 50 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.
  We have nothing to report in respect of this responsibility.

### Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 59, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and association's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and association obtained in the course of performing our audit.

- The section of the Annual Report on pages 53 and 54 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Board's responsibilities set out on page 57, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the association's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the association or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the association's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Other required reporting

## Co-operative and Community Benefit Societies Act 2014 exception reporting

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the association; or
- the association's financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

## Appointment

Following the recommendation of the audit committee, we were appointed by the members on 9 July 2012 to audit the financial statements for the year ended 31 March 2013 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 March 2013 to 31 March 2019.

The engagement partner on the audit resulting in this independent auditors' report is Sotiris Kroustis.

**PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London
16 July 2019

# GROUP FINANCIAL STATEMENTS

## For the year ended 31 March 2019

Southern Housing Group Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 (Registered Number 31055R) and registered by the Regulator for Social Housing (Registered Number L4628).

# Consolidated statement of comprehensive income

For the year ended 31 March 2019

| | Note | Group 2019 £000s | Restated Group 2018 £000s | Association 2019 £000s | Restated Association 2018 £000s |
|---|---|---|---|---|---|
| Turnover | 2 | **230,466** | 199,721 | **184,963** | 215,743 |
| Cost of sales | 2 | **(39,289)** | (29,271) | **(13,802)** | (44,347) |
| **Gross profit** | | **191,177** | 170,450 | **171,161** | 171,396 |
| Operating costs | 2 | **(129,275)** | (121,293) | **(129,232)** | (122,099) |
| Surplus/(deficit) on revaluation of investments | 2 | **568** | 3,011 | **(3,298)** | 2,555 |
| Gain on disposal of fixed assets | 5 | **9,694** | 11,137 | **6,590** | 6,540 |
| **Operating surplus** | | **72,164** | 63,305 | **45,221** | 58,392 |
| Interest receivable and similar income | 6 | **1,065** | 1,300 | **2,300** | 1,271 |
| Interest payable and similar charges | 7 | **(33,908)** | (23,368) | **(35,124)** | (23,502) |
| Share of operating surplus in joint ventures | | **35** | 62 | **-** | - |
| Gift aid received | | **-** | - | **10,141** | 23,993 |
| **Surplus before tax** | 8 | **39,356** | 41,299 | **22,538** | 60,154 |
| Taxation | 9 | **(749)** | 3,636 | **-** | (581) |
| **Surplus for the year** | | **38,607** | 44,935 | **22,538** | 59,573 |
| **Other comprehensive income** | | | | | |
| Actuarial (loss)/gain in respect of pension schemes | | **(1,224)** | 6,066 | **(1,224)** | 6,066 |
| **Total other comprehensive income** | | **(1,224)** | 6,066 | **(1,224)** | 6,066 |
| **Total comprehensive income for the year** | | **37,383** | 51,001 | **21,314** | 65,639 |
| **Total comprehensive income attributable to:** | | | | | |
| • the association | | **37,348** | 50,939 | **21,314** | 65,639 |
| • jointly controlled entities accounted for by the equity method | | **35** | 62 | **-** | - |
| | | **37,383** | 51,001 | **21,314** | 65,639 |

Cost of sales, gross profit, operating costs and operating surplus for 2018 have been restated in line with the early adoption of the March 2018 edition of FRS102, resulting updates to the Housing SORP and re-presentation of costs on adoption of the 2019 Accounting Direction. See Note 1 for further detail.

All results for the current and prior years are attributable to continuing operations. The notes on pages 75 to 117 form part of these financial statements.

# Consolidated statement of financial position

As at 31 March 2019

| | Note | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Property, plant and equipment | 10 | **1,975,924** | 1,873,904 | **1,929,303** | 1,755,603 |
| Investment properties | 11 | **106,934** | 108,944 | **90,110** | 103,359 |
| Investment in social homebuy | 12 | **7,478** | 7,710 | **7,478** | 284 |
| Listed and unlisted investments | 13 | **8,084** | 12,946 | **8,084** | 12,946 |
| Investment in connected entities | 14 | **1,790** | 1,803 | **3,530** | 30,634 |
| Investment in joint ventures | 15 | **1,886** | 1,851 | **1,294** | 1,294 |
| | | **2,102,096** | 2,007,158 | **2,039,799** | 1,904,120 |
| **Current assets** | | | | | |
| Stock | 16 | **87,359** | 59,558 | **9,418** | 20,318 |
| Trade and other debtors | 17 | **14,984** | 12,988 | **90,752** | 16,766 |
| Cash and cash equivalents | | **51,964** | 72,374 | **44,038** | 60,921 |
| | | **154,307** | 144,920 | **144,208** | 98,005 |
| Less: creditors amounts falling due within one year | 18 | **(62,180)** | (113,289) | **(57,427)** | (70,031) |
| **Net current assets** | | **92,127** | 31,631 | **86,781** | 27,974 |
| Total assets less current liabilities | | **2,194,223** | 2,038,789 | **2,126,580** | 1,932,094 |
| Creditors: amounts falling due after more than one year | 19 | **(1,564,413)** | (1,445,590) | **(1,558,466)** | (1,384,725) |
| Provisions for liabilities and charges | 21 | **-** | (1,403) | **-** | (1,200) |
| Post employment benefits | 25 | **(9,350)** | (8,719) | **(9,350)** | (8,719) |
| **Total net assets** | | **620,460** | 583,077 | **558,764** | 537,450 |
| **Reserves** | | | | | |
| Called up share capital | 22 | **-** | - | **-** | - |
| Retained equity | | **620,030** | 582,647 | **558,334** | 537,020 |
| General reserve | | **430** | 430 | **430** | 430 |
| **Total reserves** | | **620,460** | 583,077 | **558,764** | 537,450 |

Retained equity includes the net assets of the Samuel Lewis Foundation, an endowment fund, see Note 30 for further information on its net assets.

The financial statements on pages 71 to 117 were authorised for issue by the Board of Directors on 15 July 2019 and signed on its behalf by

**Arthur Merchant**
Chair

**Janet Collier**
Board member

**Iain Mackrory-Jamieson**
Company Secretary

Southern Housing Group Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 (Registered Number 31055R)

# Consolidated statement of changes in reserves

For the year ended 31 March 2019

| Group | Retained equity £000s | General reserve £000s | Total reserves £000s |
|---|---|---|---|
| Reserves at 1 April 2017 | 533,384 | 430 | **533,814** |
| Pension adjustment to opening reserves | (1,738) | - | **(1,738)** |
| Reserves at 1 April 2017 adjusted | 531,646 | 430 | **532,076** |
| **Comprehensive income for the year** | | | |
| Surplus for the year | 44,935 | - | **44,935** |
| Total surplus for the year | 44,935 | - | **44,935** |
| **Other comprehensive income for the year** | | | |
| Actuarial gain on pension schemes | 6,066 | - | **6,066** |
| **Total other comprehensive income for the year** | 6,066 | - | **6,066** |
| **Reserves at 31 March 2018** | **582,647** | 430 | **583,077** |
| **Comprehensive income for the year** | | | |
| Surplus for the year | 38,607 | - | **38,607** |
| **Total surplus for the year** | 38,607 | - | **38,607** |
| **Other comprehensive income for the year** | | | |
| Actuarial loss on pension schemes | (1,224) | - | **(1,224)** |
| **Total other comprehensive income for the year** | (1,224) | - | **(1,224)** |
| **Reserves at 31 March 2019** | **620,030** | **430** | **620,460** |

| Association | Retained equity £000s | General reserve £000s | Total reserves £000s |
|---|---|---|---|
| Reserves at 1 April 2017 | 473,119 | 430 | **473,549** |
| Pension adjustment to opening reserves | (1,738) | - | **(1,738)** |
| Reserves at 1 April 2017 adjusted | 471,381 | 430 | **471,811** |
| **Comprehensive income for the year** | | | |
| Surplus for the year | 59,573 | - | **59,573** |
| **Total comprehensive income for the year** | 59,573 | - | **59,573** |
| **Other comprehensive income for the year** | | | |
| Actuarial gain on pension schemes | 6,066 | - | **6,066** |
| **Total other comprehensive income for the year** | 6,066 | - | **6,066** |
| **Reserves at 31 March 2018** | **537,020** | 430 | 537,450 |
| **Comprehensive income for the year** | | | |
| Surplus for the year | 22,538 | - | **22,538** |
| **Total surplus for the year** | 22,538 | - | **22,538** |
| **Other comprehensive income for the year** | | | |
| Actuarial loss on pension schemes | (1,224) | - | **(1,224)** |
| **Total other comprehensive income for the year** | (1,224) | - | **(1,224)** |
| **Reserves at 31 March 2019** | **558,334** | **430** | **558,764** |

The general reserve records funds that have been given to the Group for use on some estates. The opening reserves as at 1 April 2017 were adjusted to apply defined benefit accounting for the first time to the Social Housing Pension Scheme.

Retained equity includes the net assets of the Samuel Lewis Foundation, an endowment fund, see Note 30 for further information on its net assets.

# Consolidated statement of cash flows

For the year ended 31 March 2019

| | Note | Group 2019 £000s | Group 2018 £000s |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Surplus before tax | | **39,356** | 41,299 |
| Share of operating surplus in joint ventures | | **(35)** | (62) |
| Net interest and financing costs | | **32,843** | 22,068 |
| **Operating surplus** | | **72,164** | 63,305 |
| **Adjustments for:** | | | |
| Depreciation | 10 | **24,892** | 22,193 |
| Gain on disposal of fixed assets | | **(9,694)** | (11,137) |
| Revaluation surplus on investments | | **(568)** | (3,036) |
| Government grants utilised in the year | | **(9,620)** | (9,678) |
| Increase in stock | | **(33,023)** | (463) |
| Increase in trade and other debtors | | **(1,996)** | (1,900) |
| (Decrease)/increase in trade and other creditors | | **(2,138)** | 3,574 |
| (Decresase)/increase in provisions | | **(1,996)** | 4,424 |
| (Decrease)/increase in corporation tax creditor | | **(1,049)** | 863 |
| **Net cash generated from operating activities** | | **36,972** | 68,145 |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 10 | **(133,102)** | (115,791) |
| Redemption/(purchase) of investments | 11 | **4,646** | (12,633) |
| Proceeds from disposal of property, plant and equipment | 10 | **29,738** | 21,245 |
| Distributions received from joint ventures | | **396** | 466 |
| Investment loans | | **13** | (367) |
| Interest received | | **669** | 841 |
| Government grants received | | **3,611** | 2,587 |
| Proceeds from sale of investments | | **226** | 933 |
| **Net cash used in financing activities** | | **(93,803)** | (102,719) |
| **Cash flow from financing activities** | | | |
| Interest paid | | **(34,872)** | (33,217) |
| Loan repayments | | **(391,338)** | (15,341) |
| New secured loans | | **462,631** | 30,000 |
| Net cash generated from financing activities | | **36,421** | (18,558) |
| Net decrease in cash and cash equivalents | | **(20,410)** | (53,132) |
| Cash and cash equivalents at the beginning of the year | | **72,374** | 125,506 |
| **Cash and cash equivalents at the end of the year** | | **51,964** | 72,374 |

| | Group 2018 £000s | Group Cash flow £000s | Group 2019 £000s |
|---|---|---|---|
| **Group reconciliation of net debt** | | | |
| Cash balances | 72,374 | (20,410) | **51,964** |
| Debt falling due within one year | (59,709) | 48,379 | **(11,330)** |
| Debt falling due after one year | (668,264) | (164,913) | **(833,177)** |
| **Net debt** | (655,599) | (136,944) | **(792,543)** |

At 31 March 2019, restricted cash comprising balances on bank accounts held on trust for those who own a share of their property totalled £9,810,000 (2018: £9,364,000). Cash also includes a restricted balance of £202,000 (2018: £323,000) where a charge is held as security to cover future development costs on a particular scheme.

A further £15,285,000 (2018: £15,200,000) restricted balance is held relating to the Samuel Lewis Foundation, a permanent endowment.

# 1. Principal accounting policies

## General Information and Statement of Compliance

The financial statements have been prepared in accordance with and are compliant with applicable Generally Accepted Accounting Standards in the United Kingdom including Financial Reporting Standard 102 (FRS 102), the Co-operative and Community Benefit Societies Act 2014, the Statement of Recommended Practice "Accounting by Registered Social Landlords" 2018 ("SORP") and the accounting direction for private registered providers of social housing 2019, issued by the Regulator of Social Housing. The Amendments to FRS102, issued in March 2018, and mandatory for accounting periods commencing on or after 1 January 2019 have been early adopted. They have been prepared on the historical cost basis (as modified by the revaluation of investment properties and financial instruments). The accounting policies have been consistently applied. The Association and the Group are public benefit entities registered in England.

Due to early adoption of the March 2018 edition of FRS102, resulting updates to the Housing SORP and the 2019 Accounting Direction, prior year results have been restated. Therefore there have been some movements between categories resulting as follows:

| | Group Restated 2018 £000s | Group 2018 £000s | Association Restated 2018 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Cost of sales | (29,271) | (27,931) | (44,347) | (43,022) |
| Gross profit | 170,450 | 171,791 | 171,396 | 172,721 |
| Operating costs | (121,293) | (122,634) | (122,099) | (123,424) |
| Operating surplus | 63,305 | 52,168 | 58,392 | 51,852 |

The change in operating surplus for 2018 is due to the gain on disposal of fixed assets now being presented within operating surplus.

## Key accounting judgements and estimation uncertainty

In preparing the financial statements, the Group is required to make certain estimates, judgements and assumptions. Estimates and assumptions will, by definition, seldom equal the related actual results. These are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable based on the information available.

The critical judgements and estimates made in these financial statements are:

### Property assets

Management have applied judgement in determining whether assets are recognised as property, plant and equipment, investment properties or stock. In March 2019, 22 unsold market sale and shared ownership properties held in stock were let on a market rent tenure on a short term (1 year) basis. Management assessed that these properties should be reclassified as investment properties which led to recognition of a gain of £3,817,000, with a further review to be carried out after a year when the current leases end.

For mixed tenure developments the appropriate share of costs to individual units constructed are allocated on a pro-rata area basis, in line with the initial appraisal. This is then revised once the final tenure mix has been confirmed.

When considering property assets for impairment, units are grouped together as cash generating units, by block and tenure type where the assets are in use and at a scheme level for assets under construction. As these assets are held for service potential, judgement is required in determining the appropriate method for calculating the value in use. No assets with material carrying value were tested for impairment as no impairment triggers were present.

# 1. Principal accounting policies (continued)

## Homebuy loans

Homebuy loans are accounted for as public benefit concessionary loans meaning that they are held at cost, being the share of value of the property at the date of acquisition, as opposed to being held at the fair value of the loans which FRS102 would otherwise require.

## Triathlon Homes LLP

The share of the net assets and net income of Triathlon Homes LLP are not consolidated due to it having negative net reserves for which the Group has no contractual liability.

## Transfer of engagement

In October 2018 the majority of the property, grant and other assets and liabilities of Southern Home Ownership Limited were transferred to Southern Housing Group Limited under a partial Transfer of Engagement.

The consideration paid for the assets was their net book value, £21,882,669. This strategic decision was made to facilitate the consolidation of Group funding and to allow Southern Home Ownership Limited to concentrate on the development and sales activities it now undertakes for the Group. Management judged this transaction to be a transfer of assets, not a transfer of the business.

## Operating surplus

Operating surplus includes gains and losses on the sale of fixed assets and revaluation gains and losses on investments, as these are considered to be part of the Group's operating activities. Gift aid receipts are not included within the operating surplus.

## Gift aid

Management has made a judgement that it is probable that gift aid payments will be made to the parent within 9 months of the year end by the subsidiary entities where sufficient funds are available for the year ended 31 March 2019. In accordance with the revised FRS102 the tax provision is assessed on the basis that gift aid payments are probable. Therefore the corporation tax impact of probable gift aid payments has been recognised in the calculation of the tax provision for the period.

Other sources of estimation uncertainty:

## Property assets

Initially the allocation to stock of the expected first tranche sale on shared ownership properties is assessed at 30% with the remainder allocated to fixed assets based on the scheme appraisal, see Note 16. Once properties are completed the first tranche is estimated based on sales experience and is usually between 25% and 35%.

Management reviews the useful life of the assets which are depreciated at a component level over their estimated useful economic lives based on experience. During the year, scheme approval decisions were made to demolish and regenerate two housing schemes, The Mannings and Taverner House. The schemes had a total NBV of £946,000, and so an accelerated depreciation charge of £331,000 was charged to the statement of comprehensive income with the remaining carrying value to be written off to nil over the next two accounting periods.

The fair value of investment properties is determined annually by professional external valuers. They use certain key assumptions to assess the values which can vary due to the sensitivity of the inputs such as discount rates/yields and market conditions. See Note 11 for further detail.

## Financial instruments

The Group makes an estimate of the recoverable value of tenant debtors and other debtors. When assessing impairment of trade and other debtors the Group considers factors such as the ageing profile and historical recovery rates to determine recoverability. See Note 17 for the value of rent arrears and bad debt provision.

Management uses valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This involves developing estimates and assumptions consistent with how market participants would price the instrument.

## Post employment benefits

Estimation of pension assets and liabilities depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, expected returns on pension fund assets and guaranteed minimum payment (GMP) equalisation. The Group uses qualified actuaries to value its pension assets and liabilities. They have estimated the impact of the GMP equalisation of £426,000 which has been recognised as a past service cost in the year for the Southern Housing Group scheme. See Note 25 for further detail.

## Basis of consolidation

The consolidated financial statements incorporate the financial statements of Southern Housing Group Limited (Parent Body), Southern Home Ownership Limited (SHO), Southern Space Limited (SSL), Southern Development Services Limited (SDSL), Southern Housing Construction Limited (SHCL) and Spruce Homes Limited and are consolidated in accordance with FRS 102 and the Co-operative and Community Benefit Societies Act 2014.
Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions and balances (including recognised gains arising from inter-group transactions) are eliminated in full on consolidation.

The joint venture investments in Triathlon Homes LLP and Affinity (Reading) Holdings Limited are accounted for using the equity accounting method in these consolidated financial statements. Affinity Housing Services (Reading) is accounted for as a jointly controlled operation.

### Segmental reporting

For the purpose of segmental reporting, the chief operating decision maker (CODM) is considered to be the Executive Management Team (EMT), formerly known as the Group Strategy Team (GST). In line with the segments reported to the CODM, the presentation of these financial statements and accompanied notes reflect the Group's management and internal reporting. The information reviewed within the management accounts to assess performance and make strategic decisions is consistent with and closely aligned to these financial statements. Segmental reporting is presented in Note 2 to the financial statements where information about income, and expenditure attributable to the material operating segments are presented on the basis of the tenure type of the housing assets held by the Group. This is appropriate on the basis of the similarity of the services provided, the nature of the risks associated, and the nature of the regulatory environment in which the Group operates.

Assets and liabilities are not reported by operating segment or tenure, other than housing properties which are split by tenure type and are shown in Note 10.

### Going concern

Having reviewed the future business plans the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence, being at least a period of twelve months after the date on which the report and financial statements are signed. For this reason, the Group continues to adopt the going concern basis in preparing its financial statements.

### Cash and cash equivalents

Cash and cash equivalents are cash and short term, highly liquid investments that are convertible for use as cash at less than three months' notice with minimal risk to the principal sum. Cash balances also include restricted cash held on behalf of the Group's leaseholders. In accordance with paragraph 1.12 (b) of FRS102, a Group cash flow only has been disclosed.

## Financial instruments

The Group has chosen to adopt Sections 11 and 12 of FRS102 in respect of financial instruments.

### Financial assets

Basic financial assets, including trade receivables and other receivables, cash and bank balances are initially recognised at transaction price. Financial assets are subsequently carried at amortised cost. The carrying value is reviewed annually for objective evidence of impairment. Any impairment loss is taken to the statement of comprehensive income. Where a reversal of the impairment is required, the impairment charge is reversed, up to the original impairment loss and is recognised as a credit in the statement of comprehensive income.

Unlisted investments are stated at cost less any repayment and impairment. Investments that are listed on a recognised exchange are carried at fair value based on the market price at the year end. The changes in fair value are recognised in the statement of comprehensive income.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset either expire, are settled or if the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

### Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and loans from group members are initially recognised at transaction price. Debt instruments are carried at amortised cost. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

# 1. Principal accounting policies (continued)

Derivatives are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the statement of comprehensive income in interest payable and similar charges. When derivatives are extinguished through early cancellation and payment, costs incurred and movements in the fair value of the derivatives are recognised at the point of termination and recognised in the statement of comprehensive income in interest payable and similar charges. In the case of standalone swaps, if a reduction in the fair value has been realised from the previous year, this benefit is taken through the statement of comprehensive income.

Premiums on issue of debentures are treated as deferred income and written back to the statement of comprehensive income over the period of the loan. Adjustments to debenture deferred income are reflected in Note 7.

## Turnover

### Rent receivable

Rental income from social housing and private rental properties owned by the Group is recognised on an accruals basis (net of void losses) as it falls due.

### Service charge income

Service charge income is recognised on an accruals basis as it falls due. The Group operates both fixed and variable service charges on a scheme-by-scheme basis in full consultation with residents. The service charges on all schemes are set on the basis of budgeted spend. Where variable service charges are used the budget will include an allowance for the surplus or deficit from prior years, with a surplus being returned to residents in the form of a reduced charge in the following year and a deficit being recovered via a higher service charge or by alternative methods if the contract allows.

### Management fees

Management fees receivable (excluding VAT) for services provided to other entities are recorded when they fall due. Fees are charged to the subsidiaries for management and support services and are apportioned as a percentage of turnover. Intra-group fees receivable and payable are eliminated on consolidation.

### Support services

Support service income for provision of extra care for residents with specific needs is recognised on an accruals basis as it falls due.

### Commercial income

Income from the letting of commercial properties is recognised as it falls due on an accruals basis. Where lease incentives are material they are amortised over the life of the lease.

### Property sales income

Receipts from the sale of the first tranche of shared ownership properties and proceeds of open market sales are recognised on legal completion within turnover. The sale of subsequent tranches (staircasing) of shared ownership properties and the sale of housing properties are recorded net of carrying value as a gain or loss on disposal.

### Grants

Revenue grants are credited to the statement of comprehensive income in the same period as the expenditure to which they relate and the performance conditions are met. The cumulative grant amortised is disclosed as part of the contingent liabilities until the property it funds is disposed of or ceases to be used for social housing purposes. Social Housing Grant is the capital grant provided by Homes England (formerly the Homes and Communities Agency); the Greater London Authority or other Government agency to wholly or partially fund Registered Providers when developing social housing. The grant is carried as deferred income in the balance sheet and amortised to the statement of comprehensive income through turnover, over the life of the structure of the properties to which it relates when they are ready to let.

Social Housing Grant becomes recyclable at the point the related property is sold and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income in the statement of comprehensive income.

### Gift aid

Gift aid income is recognised in the statement of comprehensive income by the Association and as a distribution in the subsidiary making the gift aid payment when the intended gift has been confirmed. It is not provided for where a legal obligation does not exist. Income and distribution are eliminated on consolidation where the gift is from a Group company.

## Interest income

Interest income is recognised as it falls due on a receivable basis.

## Interest payable

Interest payable is recognised as it falls due on a payable basis together with amortised cost charges. Interest is capitalised on properties under construction on a fair proportion of the borrowings of the Group and Association as a whole, using the weighted average interest rate for borrowing.

## Taxation

No taxation is payable on the charitable surpluses of the Association. Taxation is chargeable on the surpluses of all subsidiary entities. Surpluses either in whole or in part are transferred to the parent by a gift aid distribution which then reduces the taxation charge accordingly. The tax impact of a gift aid payment is accounted for when it is probable that the gift aid payment will be made. All entities are registered for Value Added Tax (VAT), as the majority of group activities are exempt from VAT the recovery under partial exemption is minimal.

## Deferred taxation

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102 Section 29.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

## Property, plant and equipment

Property plant and equipment comprise housing properties and other fixed assets.

### Housing properties

Housing properties are held at historic cost, using the cost model, less accumulated depreciation. Cost includes the cost of acquiring land and buildings, construction costs as well as directly attributable staff costs and interest capitalised during the development period from commencement on site.

Costs are split between the structure and those major components which require periodic replacement. Replacement or restoration of such major components is capitalised and depreciated over the average estimated useful life which has been set taking into account professional advice, the Group's asset management strategy and the requirements of the Decent Homes Standard.

Works to existing properties which result in an increase in the net rental stream over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements. This may be as a result of an increase in net rental income, a reduction in future maintenance costs or a significant extension of the useful economic life of the property.

Housing properties in the course of construction are held at cost and are not depreciated. They are transferred to completed properties when handed over for letting or sale. Capitalisation of development costs ceases at practical completion including the accrual of known costs at that time and all subsequent costs are expensed.

# 1. Principal accounting policies (continued)

### Depreciation

Freehold land is not subject to depreciation.

Depreciation is charged on a straight-line basis over the useful economic lives of fixed assets to write off to the estimated residual value. The following useful economic lives are used:

| Housing properties held for letting: | |
|---|---|
| Structure | 100 years |
| Major components | |
| Bathroom | 30 years |
| Heating system (Gas) | 15 years |
| Heating system (Electric) | 25 years |
| Kitchen | 20 years |
| Roof (Pitched) | 60 years |
| Roof (Flat) | 20 years |
| Windows | 30 years |
| Wiring | 30 years |

It is Group policy to ensure resident shared owners maintain the property in a continuous state of sound repair and the Group considers that any depreciation calculation based on the property's current value would be insignificant, due to the large residual value and long economic lives. Therefore shared ownership properties are not depreciated.

Where a decision is made to demolish and redevelop properties, the useful economic life of the asset is re-estimated at the point that Board approval is obtained and depreciation is then charged over the remaining life of the asset.

### Impairment

At each balance sheet date the value of property plant and equipment assets is formally assessed to determine whether there is an indication that the carrying value of the asset is greater than the recoverable amount and therefore may require impairment. This assessment is carried out by tenure and at the estate/scheme level, this level comprises a cash generating unit. A scheme is defined as all units of the same tenure within one area or estate. Impairment is assessed scheme by scheme. Stock in the course of construction is assessed against the net realisable value of the asset.

In line with the Group's objectives its social housing properties are held for their service potential and not purely for economic return. Therefore, the Group follows the guidelines of the SORP and uses the depreciated replacement cost of the property as a reasonable estimate of the recoverable amount. Where there is evidence of impairment, fixed assets are written down to their recoverable amount. Any such write down is charged to operating surplus. For those properties occupied on short leases the maximum depreciation period is that of the remaining term of the lease.

### Other tangible fixed assets

Other tangible fixed assets are stated at historic costs less accumulated depreciation and any accumulated impairment losses. Historic cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is charged on a straight-line basis over the useful economic lives of fixed assets to write off the cost to the estimated residual value at the annual rates below.

| | |
|---|---|
| Freehold and leasehold properties | 100 years |
| Plant and machinery | 15 years |
| Estate and office – fixtures/ fittings or furniture | 5-10 years |
| Computer hardware or software | 3 years |

## Investment properties

Properties for market rent or commercial lettings are included as investment properties and are recorded at fair value with changes in the market value reported in the statement of comprehensive income. Fair value is determined annually with an appropriately qualified external valuer being employed to perform a desk top valuation. No depreciation is provided in respect of investment properties.

## Investment in social Homebuy loans

The investments in the interest free social homebuy loans are recorded at transaction value. The loan is repayable on the sale of the underlying property with any proportionate excess achieved on the sale value over the loan value being reported through the statement of comprehensive income. These are classified as concessionary loans and are held at amortised cost.

## Unlisted investments

Unlisted investments, comprising a long term cash deposit, are held at cost adjusted for any increases in amounts deposited or withdrawn and impairment. Interest receivable is accounted for on an accruals basis.

## Listed investments

Investments that are listed on a recognised exchange are carried at fair value based on the market price at the year end. The changes in fair value are recognised in the statement of comprehensive income.

## Investments in joint ventures

Joint ventures are those entities over which the Group exercises joint control through a contractual arrangement. Affinity Housing Services (Reading) is accounted for as a jointly controlled operation where the share of operations are brought directly into the Group and Association financial statements. Affinity (Reading) Holdings Limited is accounted for as a jointly controlled entity. In the Association figures it is held at cost less any impairment, in the Group it is held using the equity method of accounting. Triathlon Homes LLP is also accounted for as a jointly controlled entity, however losses of joint ventures in excess of the Group's interest in those joint ventures are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures.

## Properties held for sale

Completed property stock and properties under construction for outright sale are valued at the lower of cost and net realisable value. Cost comprises land, materials, direct labour, direct development overheads and interest capitalised during the development period from commencement on site. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Shared ownership properties held for sale and under construction are split proportionally between stock and fixed assets, based on the expected first tranche proportion. First tranche proportions are accounted for as stock and the related sales proceeds are shown in turnover. The remaining elements of the shared ownership properties are accounted for as fixed assets. Subsequent sales are treated as part disposals of fixed assets.

## Provision for liabilities and charges

A provision is recognised only where probable that there is a legal or constructive obligation to transfer economic benefits. The provision is recognised at the best estimate of the amount required.

## Post employment benefits

The Group operates three defined benefit schemes all of which are closed to new members. There are two defined contribution schemes.

Regular valuations are prepared by independent, professionally qualified actuaries. These determine the level of contributions required to fund the benefits set out in the rules of the pension fund. The current service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, administration costs and net interest are charged against the operating surplus in the year.

Remeasurement of the net liability (or asset) is recognised as actuarial gains/losses in other comprehensive income.

Employer contributions paid to all defined contribution schemes are charged to the statement of comprehensive income.

# 2. Particulars of turnover, cost of sales, operating costs and operating surplus

| Group | 2019 Turnover £000s | 2019 Cost of Sales £000s | 2019 Operating Costs £000s | 2019 Operating Surplus £000s | 2018 Turnover £000s | 2018 Cost of Sales £000s | 2018 Operating Costs £000s | 2018 Operating Surplus £000s |
|---|---|---|---|---|---|---|---|---|
| **Social housing lettings** | **159,913** | **-** | **(122,850)** | **37,063** | 155,438 | - | (115,620) | 39,818 |
| **Other social housing activities** | | | | | | | | |
| Charges for support services | **4,687** | **-** | **(5,198)** | **(511)** | 4,408 | - | (4,971) | (563) |
| First tranche low-cost home ownership sales | **24,892** | **(20,840)** | **-** | **4,052** | 27,749 | (24,248) | - | 3,501 |
| Other | **99** | **-** | **-** | **99** | 90 | - | - | 90 |
| **Non-social housing activities** | | | | | | | | |
| Commercial income/(expenses) | **2,492** | **-** | **(148)** | **2,344** | 2,678 | - | (160) | 2,518 |
| Private rental lettings | **2,112** | **-** | **(880)** | **1,232** | 1,436 | - | (542) | 894 |
| Open market sales | **35,405** | **(18,449)** | **-** | **16,956** | 7,132 | (5,023) | - | 2,109 |
| Other | **866** | **-** | **(199)** | **667** | 790 | - | - | 790 |
| | **230,466** | **(39,289)** | **(129,275)** | **61,902** | 199,721 | (29,271) | (121,293) | 49,157 |
| Revaluation surplus on investments (Note 11) | **568** | **-** | **-** | **568** | 3,011 | - | - | 3,011 |
| Gain on disposal of fixed assets (Note 5) | **29,173** | **(19,479)** | **-** | **9,694** | 25,456 | (14,319) | - | 11,137 |
| **Total of operating activities** | **260,207** | **(58,768)** | **(129,275)** | **72,164** | 228,188 | (43,590) | (121,293) | 63,305 |

| Association | 2019 Turnover £000s | 2019 Cost of Sales £000s | 2019 Operating Costs £000s | 2019 Operating Surplus £000s | 2018 Turnover £000s | 2018 Cost of Sales £000s | 2018 Operating Costs £000s | 2018 Operating Surplus £000s |
|---|---|---|---|---|---|---|---|---|
| **Social housing lettings** | **156,842** | **-** | **(123,203)** | **33,639** | 149,930 | - | (116,541) | 33,389 |
| **Other social housing activities** | | | | | | | | |
| Charges for support services | **4,687** | **-** | **(5,198)** | **(511)** | 4,408 | - | (4,971) | (563) |
| First tranche low-cost home ownership sales | **17,862** | **(13,802)** | **-** | **4,060** | 19,404 | (14,496) | - | 4,908 |
| Other | **99** | **-** | **-** | **99** | 90 | - | - | 90 |
| **Non-social housing activities** | | | | | | | | |
| Intra-group property sales | **-** | **-** | **-** | **-** | 36,785 | (29,851) | - | 6,934 |
| Commercial income/(expenses) | **2,484** | **-** | **(148)** | **2,336** | 2,623 | - | (160) | 2,463 |
| Private rental lettings | **1,794** | **-** | **(683)** | **1,111** | 1,329 | - | (427) | 902 |
| Other | **1,195** | **-** | **-** | **1,195** | 1,174 | - | - | 1,174 |
| | **184,963** | **(13,802)** | **(129,232)** | **41,929** | 215,743 | (44,347) | (122,099) | 49,297 |
| Revaluation (deficit)/surplus on investments (Note 11) | **(3,298)** | **-** | **-** | **(3,298)** | 2,555 | - | - | 2,555 |
| Gain on disposal of fixed assets (Note 5) | **25,240** | **(18,650)** | **-** | **6,590** | 16,265 | (9,725) | - | 6,540 |
| **Total of operating activities** | **206,905** | **(32,452)** | **(129,232)** | **45,221** | 234,563 | (54,072) | (122,099) | 58,392 |

The 2018 figures have been re-presented in line with the Accounting Direction 2019.

# 2. Particulars of income and expenditure from social housing lettings

| Group | General Needs £000s | Supported and Older People's Housing £000s | Affordable Rent £000s | Intermediate Rent £000s | Shared Ownership £000s | **2019 Total £000s** |
|---|---|---|---|---|---|---|
| Rent receivable net of identifiable service charges | 90,455 | 13,710 | 9,088 | 7,984 | 13,964 | **135,201** |
| Service charges receivable | 10,174 | 1,542 | - | 506 | 2,870 | **15,092** |
| **Gross rental income** | 100,629 | 15,252 | 9,088 | 8,490 | 16,834 | **150,293** |
| Grant amortisation | 6,291 | 954 | 313 | 418 | 1,644 | **9,620** |
| **Turnover from social housing lettings** | 106,920 | 16,206 | 9,401 | 8,908 | 18,478 | **159,913** |
| Management | (30,359) | (4,602) | (1,946) | (1,503) | (5,555) | **(43,965)** |
| Service charge costs | (15,605) | (2,365) | (1,000) | (796) | (3,407) | **(23,173)** |
| Rent losses from bad debts | (833) | (126) | (53) | (41) | (156) | **(1,209)** |
| Routine maintenance | (19,268) | (2,921) | (1,235) | (1,089) | - | **(24,513)** |
| Planned maintenance | (4,531) | (687) | (290) | (225) | 59 | **(5,674)** |
| Depreciation | (19,178) | (2,907) | (1,229) | (1,002) | - | **(24,316)** |
| **Operating costs on social housing lettings** | (89,774) | (13,608) | (5,753) | (4,656) | (9,059) | **(122,850)** |
| Operating surplus on social housing lettings | 17,146 | 2,598 | 3,648 | 4,252 | 9,419 | **37,063** |
| **Void Losses** | 487 | 72 | 42 | 228 | - | **829** |

| Group | General Needs £000s | Supported and Older People's Housing £000s | Affordable Rent £000s | Intermediate Rent £000s | Shared Ownership £000s | **2018 Total £000s** |
|---|---|---|---|---|---|---|
| Rent receivable net of identifiable service charges | 89,489 | 13,261 | 8,763 | 8,048 | 12,091 | **131,652** |
| Service charges receivable | 9,093 | 1,348 | - | 447 | 3,220 | **14,108** |
| **Gross rental income** | 98,582 | 14,609 | 8,763 | 8,495 | 15,311 | **145,760** |
| Grant amortisation | 6,029 | 893 | 296 | 414 | 2,046 | **9,678** |
| **Turnover from social housing lettings** | 104,611 | 15,502 | 9,059 | 8,909 | 17,357 | **155,438** |
| Management | (30,706) | (4,622) | (2,063) | (1,541) | (5,715) | **(44,647)** |
| Service charge costs | (12,533) | (1,857) | (829) | (644) | (2,948) | **(18,811)** |
| Rent losses from bad debts | (320) | (47) | (21) | (16) | (44) | **(448)** |
| Routine maintenance | (18,933) | (2,806) | (1,253) | (1,157) | - | **(24,149)** |
| Planned maintenance | (3,019) | (447) | (200) | (28) | - | **(3,694)** |
| Depreciation | (18,821) | (2,789) | (1,245) | (1,016) | - | **(23,871)** |
| **Operating costs on social housing lettings** | (84,332) | (12,568) | (5,611) | (4,402) | (8,707) | **(115,620)** |
| Operating surplus on social housing lettings | 20,279 | 2,934 | 3,448 | 4,507 | 8,650 | **39,818** |
| **Void Losses** | 988 | 146 | 63 | 356 | 7 | **1,560** |

# 2. Particulars of income and expenditure from social housing lettings (continued)

| **Association** | General Needs £000s | Supported and Older People's Housing £000s | Affordable Rent £000s | Intermediate Rent £000s | Shared Ownership £000s | **2019 Total £000s** |
|---|---|---|---|---|---|---|
| Rent receivable net of identifiable service charges | 90,455 | 13,710 | 9,088 | 7,652 | 10,724 | **131,629** |
| Service charges | 10,174 | 1,542 | - | 506 | 1,867 | **14,089** |
| **Gross rental income** | 100,629 | 15,252 | 9,088 | 8,158 | 12,591 | **145,718** |
| External management fee | 811 | - | - | - | 1,198 | **2,009** |
| Grant amortisation | 6,291 | 954 | 313 | 403 | 1,154 | **9,115** |
| **Turnover from social housing lettings** | 107,731 | 16,206 | 9,401 | 8,561 | 14,943 | **156,842** |
| Management | (31,062) | (4,708) | (1,991) | (1,545) | (5,699) | **(45,005)** |
| Service charge costs | (15,605) | (2,365) | (1,000) | (776) | (2,863) | **(22,609)** |
| Rent losses from bad debts | (833) | (126) | (53) | (41) | (153) | **(1,206)** |
| Routine maintenance | (19,268) | (2,921) | (1,235) | (958) | - | **(24,382)** |
| Planned maintenance | (4,531) | (687) | (290) | (225) | - | **(5,733)** |
| Depreciation | (19,178) | (2,907) | (1,229) | (954) | - | **(24,268)** |
| **Operating costs on social housing lettings** | (90,477) | (13,714) | (5,798) | (4,499) | (8,715) | **(123,203)** |
| Operating surplus on social housing lettings | 17,254 | 2,492 | 3,603 | 4,062 | 6,228 | **33,639** |
| **Void Losses** | 487 | 72 | 42 | 218 | - | **819** |

| **Association** | General Needs £000s | Supported and Older People's Housing £000s | Affordable Rent £000s | Intermediate Rent £000s | Shared Ownership £000s | **2018 Total £000s** |
|---|---|---|---|---|---|---|
| Rent receivable net of identifiable service charges | 89,629 | 13,282 | 8,763 | 7,535 | 7,134 | **126,343** |
| Service charges | 9,093 | 1,348 | - | 447 | 1,615 | **12,503** |
| **Gross rental income** | 98,722 | 14,630 | 8,763 | 7,982 | 8,749 | **138,846** |
| External management fee | 1,051 | - | - | - | 1,345 | **2,396** |
| Grant amortisation | 6,029 | 893 | 296 | 399 | 1,071 | **8,688** |
| **Turnover from social housing lettings** | 105,802 | 15,523 | 9,059 | 8,381 | 11,165 | **149,930** |
| Management | (32,265) | (4,782) | (2,135) | (1,587) | (5,732) | **(46,501)** |
| Service charge costs | (12,533) | (1,857) | (829) | (616) | (2,226) | **(18,061)** |
| Rent losses from bad debts | (320) | (47) | (21) | (16) | (57) | **(461)** |
| Routine maintenance | (18,933) | (2,806) | (1,253) | (931) | - | **(23,923)** |
| Planned maintenance | (3,019) | (447) | (200) | (148) | - | **(3,814)** |
| Depreciation | (18,821) | (2,789) | (1,245) | (926) | - | **(23,781)** |
| **Operating costs on social housing lettings** | (85,891) | (12,728) | (5,683) | (4,224) | (8,015) | **(116,541)** |
| Operating surplus on social housing lettings | 19,911 | 2,795 | 3,376 | 4,157 | 3,150 | **33,389** |
| **Void Losses** | 988 | 146 | 63 | 355 | - | **1,552** |

# 3. Board and senior executive emoluments (Key management personnel)

The remuneration paid to the directors (who for the purposes of this note include the members of the Board, committee members, the Group Chief Executive and any other person who is a member of the Executive Management Team) was as follows:

| Group | **2019 £000s** | 2018 £000s |
|---|---|---|
| Emoluments | **970** | 1,058 |
| Compensation for loss of office | **-** | 117 |
| Pension contributions | **66** | 54 |
| Non Executive Board member emoluments | **136** | 129 |
| | **1,172** | 1,358 |

The remuneration (excluding pension contributions and NI) payable to the directors in their role as Group Chief Executives, was:

| | **£** | £ |
|---|---|---|
| Alan Townshend | **147,064** | - |
| Tom Dacey | **121,669** | 292,927 |
| **Total remuneration (excluding pension contributions and NI)** | **268,733** | 292,927 |

Tom Dacey retired on 31 August 2018. The remuneration for the year of the highest paid director, Alan Townshend, who replaced him as Chief Executive  was £200,148. This includes the remuneration for the period prior to 1 September 2018 when he was Group Development Director.

The Remuneration and Nominations Committee sets the pay of the Executive Directors at a level to attract and retain the talent required to lead the Group. In doing this it takes account of a market comparative exercise which is carried out annually by an independent body. Our aim is not to pay the highest salaries in the market but to remain competitive.

The pension schemes available to the Executive Directors are offered on the same terms as to other staff. There are no different pension arrangements for the Executive Directors who participate in a bonus scheme, non-consolidated for pension purposes. The awards are determined by personal performance against objectives and targets.

# 4. Employee information

| Monthly average number of full-time equivalent employees (FTE = 35 hours per week): | **Group 2019 FTE** | Group 2018 FTE | **Association 2019 FTE** | Association 2018 FTE |
|---|---|---|---|---|
| Housing management | **661** | 621 | **661** | 621 |
| Office staff | **261** | 244 | **261** | 244 |
| **Average number of full-time equivalent employees** | **922** | 865 | **922** | 865 |

| Staff costs (for the above employees) | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| Wages and salaries | **30,977** | 27,903 | **30,977** | 27,903 |
| Social security costs | **3,228** | 2,839 | **3,228** | 2,839 |
| Other pension costs | **2,666** | 7,860 | **2,666** | 7,860 |
| Termination benefits | **386** | 690 | **386** | 690 |
| | **37,257** | 39,292 | **37,257** | 39,292 |

Remuneration paid to staff including Executives in bands from £60,000 upwards:

| FTE = 35 hours per week | **Group 2019 FTE** | Group 2018 FTE |
|---|---|---|
| £60,000 - £70,000 | **48** | 41 |
| £70,000 - £80,000 | **27** | 20 |
| £80,000 - £90,000 | **13** | 10 |
| £90,000 - £100,000 | **10** | 8 |
| £100,000 - £110,000 | **3** | 4 |
| £110,000 - £120,000 | **2** | 2 |
| £120,000 - £130,000 | **5** | 5 |
| £130,000 - £140,000 | **4** | 2 |
| £140,000 - £150,000 | **1** | - |
| £150,000 - £160,000 | **1** | - |
| £180,000 - £190,000 | **1** | 2 |
| £190,000 - £200,000 | **-** | 1 |
| £200,000 - £210,000 | **-** | 1 |
| £220,000 - £230,000 | **1** | - |
| £240,000 - £250,000 | **1** | - |
| £330,000 - £340,000 | **-** | 1 |

Remuneration includes salary, allowances, pension contributions, employers NI, benefits in kind and non-consolidated bonus.

# 5. Gain on disposal of fixed assets

| Group | Housing property 2019 £000s | Homebuy and other tangible fixed assets 2019 £000s | Total 2019 £000s | Housing property 2018 £000s | Homebuy and other tangible fixed assets 2018 £000s | Total 2018 £000s |
|---|---|---|---|---|---|---|
| Sale proceeds | **28,494** | **679** | **29,173** | 24,288 | 1,168 | 25,456 |
| Cost of sales | **(19,182)** | **(232)** | **(19,414)** | (13,762) | (478) | (14,240) |
| Incidental sale expenses | **(65)** | **-** | **(65)** | (73) | (6) | (79) |
| | **9,247** | **447** | **9,694** | 10,453 | 684 | 11,137 |

| Association | Housing property 2019 £000s | Homebuy and other tangible fixed assets 2019 £000s | Total 2019 £000s | Housing property 2018 £000s | Homebuy and other tangible fixed assets 2018 £000s | Total 2018 £000s |
|---|---|---|---|---|---|---|
| Sale proceeds | **24,787** | **453** | **25,240** | 16,077 | 188 | 16,265 |
| Cost of sales | **(18,453)** | **(138)** | **(18,591)** | (9,579) | (79) | (9,658) |
| Incidental sale expenses | **(59)** | **-** | **(59)** | (66) | (1) | (67) |
| | **6,275** | **315** | **6,590** | 6,432 | 108 | 6,540 |

# 6. Interest receivable and similar income

| Interest and investment income | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Interest from investments | **586** | 1,018 | **1,869** | 1,042 |
| Interest from bank deposits | **479** | 282 | **431** | 229 |
| **Total** | **1,065** | 1,300 | **2,300** | 1,271 |

Total intercompany interest received by the Association in the year was £1,735,000 (2018: £586,000).

# 7. Interest payable and similar charges

| Net Interest and finance costs charged | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Loans and bonds | **(33,655)** | (33,852) | **(33,266)** | (33,470) |
| Other fees | **(4,265)** | (1,080) | **(4,136)** | (1,005) |
| Less: interest payable capitalised | **5,598** | 4,407 | **3,864** | 3,816 |
| | **(32,322)** | (30,525) | **(33,538)** | (30,659) |
| Deferred income written back | **111** | 136 | **111** | 136 |
| | **(32,211)** | (30,389) | **(33,427)** | (30,523) |
| Loan restructure costs and termination of derivatives* | **(1,487)** | 7,258 | **(1,487)** | 7,258 |
| **Total** | **(33,698)** | (23,131) | **(34,914)** | (23,265) |

| Other finance costs: Pension schemes | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| **Group pension scheme** | | | | |
| Expected return on pension scheme assets | **1,797** | 1,108 | **1,797** | 1,108 |
| Interest on pension scheme liabilities | **(1,951)** | (1,288) | **(1,951)** | (1,288) |
| **Isle of Wight Council pension scheme** | | | | |
| Expected return on pension scheme assets | **141** | 136 | **141** | 136 |
| Interest on pension scheme liabilities | **(197)** | (193) | **(197)** | (193) |
| **Total** | **(210)** | (237) | **(210)** | (237) |
| **Total interest and similar charges** | **(33,908)** | (23,368) | **(35,124)** | (23,502) |

*Within loan restructure costs, £3,636,000 relates to the gain on termination of derivative financial instruments.

The Group's weighted average interest rate for borrowing is 4.17% per annum (2018: 4.75% per annum). Deferred income written back relates to debenture premium.

# 8. Surplus before tax

The operating surplus before tax is stated after charging:

| | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| **Depreciation:** | | | | |
| Property | **22,090** | 19,798 | **22,041** | 19,708 |
| Other tangible fixed assets | **2,802** | 2,395 | **2,802** | 2,395 |
| **Stock cost of sales recognised as an expense** | **39,289** | 29,271 | **13,802** | 44,347 |
| **Operating lease charges:** | | | | |
| Property | **97** | 248 | **97** | 248 |
| Other equipment | **394** | 349 | **394** | 349 |
| **Auditors' remuneration:** | | | | |
| External audit fee (including expenses, excluding VAT) | **192** | 171 | **155** | 136 |
| Other assurance services (excluding VAT) | **48** | - | **48** | - |

The external auditors also provide taxation compliance services to Triathlon Homes LLP, a joint venture of the Association. Fees were (excluding VAT) £11,000 (2018: £14,000).

# 9. Taxation

| **UK corporation tax** | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Current tax at 19% (2018: 19%) | **187** | 1,226 | **-** | 581 |
| Adjustment to tax (credit)/charge in respect of previous years | **(176)** | (4,862) | **-** | - |
| **Total tax charge/(credit)** | **11** | (3,636) | **-** | 581 |
| Deferred tax expense | **669** | **-** | - | **-** |
| Adjustments in respect of prior periods | **69** | - | - | - |
| | **749** | (3,636) | **-** | 581 |

# 9. Taxation (continued)

The tax charge has been assessed on the basis that it is probable that gift aid will be paid to the parent by the Group companies within 9 months of the year end.

The total tax charge/(credit) for the year is lower (2018: lower) than the standard rate of corporation tax in the UK (19% (2018: 19%). The differences are explained below.

| Current tax reconciliation | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Surplus on ordinary activities before tax | **39,356** | 41,299 | **22,538** | 60,154 |
| less surplus from charitable activities | **(22,538)** | (33,105) | **-** | - |
| Taxable surplus on ordinary activities before tax | **16,818** | 8,194 | **22,538** | 60,154 |
| Total tax charge/(credit) | **3,195** | 1,557 | **4,282** | 6,871 |
| **Effects of:** | | | | |
| Chargeable gains | **428** | 587 | **-** | - |
| Timing difference in relation to revaluation | **802** | - | - | - |
| Change in tax rates | **(77)** | - | - | - |
| Expenses not deductible/(income not taxable) | **(183)** | 420 | **-** | - |
| Income not taxable for tax purposes | **-** | - | **(4,282)** | (6,290) |
| Qualifying charitable donations paid or to be paid within 9 months of the year end | **(3,585)** | (1,727) | **-** | - |
| Adjustment to tax charge/(credit) in respect of previous years | **(177)** | (4,860) | **-** | - |
| Share of taxable profits in Triathlon Homes LLP | **331** | 389 | **-** | - |
| Deferred tax not recognised | **15** | (2) | **-** | - |
| **Total tax charge/(credit) (see above)** | **749** | (3,636) | **-** | 581 |

| Deferred taxation | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| At 1 April | **-** | - | **-** | - |
| Timing differences | **669** | - | **-** | - |
| Adjustments in respect of prior periods | **69** | - | **-** | - |
| **At 31 March** | **738** | - | - | - |

## Factors that may affect future tax charges

The standard rate of corporation tax in the UK remained at 19% in 2019.
Changes were announced in the autumn 2016 statement reducing the rate of corporation tax to 17% from 1 April 2020.

# 10. Property, plant and equipment

| Group | Housing Properties Held for Letting £000s | Shared Ownership housing properties £000s | Housing properties under construction £000s | Other Fixed Assets per following note £000s | **Total property, plant and equipment £000s** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2018 | 1,667,368 | 237,814 | 137,466 | 59,645 | **2,102,293** |
| Reclassification from investment properties | 226 | 324 | 6,920 | - | **7,470** |
| Reclassification to other fixed assets | - | - | (571) | 571 | - |
| Reclassification to stock | - | - | (1,447) | - | **(1,447)** |
| Transfer of engagement | - | - | - | - | - |
| Schemes completed | 29,220 | 35,367 | (64,587) | - | - |
| Homeflex tenure change | (5,182) | 3,623 | - | - | **(1,559)** |
| Additions: New properties | - | - | 59,014 | - | **59,014** |
| Existing properties | 54,739 | 5,900 | 38 | - | **60,677** |
| Other fixed assets | - | - | - | 18,929 | **18,929** |
| Transfer from/(to) stock | - | 283 | (136) | - | **147** |
| Disposals | (5,968) | (7,702) | (5,652) | (76) | **(19,398)** |
| **At 31 March 2019** | 1,740,403 | 275,609 | 131,045 | 79,069 | **2,226,126** |
| **Accumulated Depreciation** | | | | | |
| At 1 April 2018 | 202,090 | - | - | 26,299 | **228,389** |
| Charge for year | 22,090 | - | - | 2,802 | **24,892** |
| Eliminated in respect of disposals | (3,040) | - | - | (39) | **(3,079)** |
| **At 31 March 2019** | 221,140 | - | - | 29,062 | **250,202** |
| **Net Book Value** | | | | | |
| **At 31 March 2019** | 1,519,263 | 275,609 | 131,045 | 50,007 | **1,975,924** |
| At 31 March 2018 | 1,465,278 | 237,814 | 137,466 | 33,346 | **1,873,904** |

| Association | Housing Properties Held for Letting £000s | Shared Ownership housing properties £000s | Housing properties under construction £000s | Other Fixed Assets per following note £000s | **Total property, plant and equipment £000s** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2018 | 1,663,707 | 159,144 | 100,365 | 59,645 | **1,982,861** |
| Reclassification from investment properties | 226 | 324 | 6,920 | - | **7,470** |
| Reclassification to other fixed assets | - | - | (571) | 571 | - |
| Reclassification from stock | - | - | 9,408 | - | **9,408** |
| Transfer of engagement | 3,915 | 84,187 | - | - | **88,102** |
| Schemes completed | 23,785 | 19,059 | (42,844) | - | - |
| Homeflex tenure change | (5,182) | 3,623 | - | - | **(1,559)** |
| Additions: New properties | - | - | 31,670 | - | **31,670** |
| Existing properties | 54,734 | 5,787 | - | - | **60,521** |
| Other fixed assets | - | - | - | 18,929 | **18,929** |
| Transfer from stock | - | 516 | - | - | **516** |
| Disposals | (5,968) | (6,885) | (5,652) | (76) | **(18,581)** |
| **At 31 March 2019** | 1,735,217 | 265,755 | 99,296 | 79,069 | **2,179,337** |
| **Accumulated Depreciation** | | | | | |
| At 1 April 2018 | 200,959 | - | - | 26,299 | **227,258** |
| Transfer of engagement | 1,011 | - | - | - | **1,011** |
| Charge for year | 22,041 | - | - | 2,802 | **24,843** |
| Eliminated in respect of disposals | (3,039) | - | - | (39) | **(3,078)** |
| **At 31 March 2019** | 220,972 | - | - | 29,062 | **250,034** |
| **Net Book Value** | | | | | |
| **At 31 March 2019** | 1,514,245 | 265,755 | 99,296 | 50,007 | **1,929,303** |
| At 31 March 2018 | 1,462,748 | 159,144 | 100,365 | 33,346 | **1,755,603** |

The other fixed asset note detail can be found at the end of Note 10.

# 10. Property, plant and equipment (continued)

Loan facilities, both drawn and undrawn, totalling £1,312m (2018: £861m) are secured against 16,748 (2018: 15,081) properties.

Properties owned by Southern Home Ownership Limited were transferred to Southern Housing Group Limited under a Transfer of Engagement during the year.

| Accommodation in management comprises: | Group Units 2018 | Group Units Additions | Group Units Disposals | Group Units Tenure change/other | **Group Units 2019** |
|---|---|---|---|---|---|
| **Units owned and managed:** | | | | | |
| General needs | 17,262 | 353 | (23) | (103) | 17,489 |
| Housing for older people | 2,285 | - | - | (1) | 2,284 |
| Supported housing | 273 | 104 | (10) | - | 367 |
| Intermediate rent | 902 | 1 | - | (33) | 870 |
| Private rent (investment properties) | 124 | 70 | - | 9 | 203 |
| Affordable rent | 1,142 | 7 | - | (28) | 1,121 |
| Leasehold | 2,632 | 103 | (1) | (56) | 2,678 |
| Shared ownership | 2,942 | 232 | (2) | 37 | 3,209 |
| | 27,562 | 870 | (36) | (175) | **28,221** |
| **Units managed on behalf of other landlords:** | | | | | |
| General needs | 8 | - | (7) | (1) | **-** |
| Supported housing | 60 | 12 | - | - | **72** |
| Leasehold | 80 | - | - | (71) | **9** |
| Shared ownership | - | - | - | 32 | **32** |
| | 148 | 12 | (7) | (40) | **113** |
| **Total units managed** | 27,710 | 882 | (43) | (215) | **28,334** |
| **Total units owned** | 27,562 | 870 | (36) | (175) | **28,221** |

| Accommodation in management comprises: | Association Units 2018 | Association Units Additions | Association Units Disposals | Association Units Tenure change/other | **Association Units 2019** |
|---|---|---|---|---|---|
| **Units owned and managed:** | | | | | |
| General needs | 17,262 | 349 | (23) | (103) | **17,485** |
| Housing for older people | 2,285 | - | - | (1) | **2,284** |
| Supported housing | 273 | 104 | (10) | - | **367** |
| Intermediate rent | 849 | 45 | - | (33) | **861** |
| Private rent (investment properties) | 110 | 48 | - | 9 | **167** |
| Affordable rent | 1,142 | 7 | - | (28) | **1,121** |
| Leasehold | 1,466 | 1,077 | (1) | (35) | **2,507** |
| Shared ownership | 1,600 | 1,466 | (2) | 40 | **3,104** |
| | 24,987 | 3,096 | (36) | (151) | **27,896** |
| **Units managed on behalf of other landlords:** | | | | | |
| General needs | 8 | 4 | (7) | (1) | **4** |
| Supported housing | 60 | - | - | 12 | **72** |
| Intermediate rent | 53 | - | (44) | - | **9** |
| Leasehold | 1,130 | 75 | (1,049) | (26) | **130** |
| Shared ownership | 1,342 | 104 | (1,338) | 29 | **137** |
| | 2,593 | 183 | (2,438) | 14 | **352** |
| **Total units managed** | 27,580 | 3,279 | (2,474) | (137) | **28,248** |
| **Total units owned** | 24,987 | 3,096 | (36) | (151) | **27,896** |

# 10. Property, plant and equipment (continued)

## Other fixed assets

| Group & Association | Freehold & leasehold properties £000s | Estate equipment £000s | Plant, machinery, fixtures & fittings £000s | Computer, hardware & software £000s | **Total other fixed assets £000s** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2018 | 23,957 | 25,410 | 2,068 | 8,210 | **59,645** |
| Reclassification | 571 | - | - | - | **571** |
| Additions | 4,525 | 5,708 | - | 8,696 | **18,929** |
| Disposals | (27) | (49) | - | - | **(76)** |
| **At 31 March 2019** | 29,026 | 31,069 | 2,068 | 16,906 | **79,069** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2018 | 5,491 | 12,589 | 1,897 | 6,322 | **26,299** |
| Charge for year | 720 | 1,207 | 9 | 866 | **2,802** |
| Disposals | (6) | (33) | - | - | **(39)** |
| **At 31 March 2019** | 6,205 | 13,763 | 1,906 | 7,188 | **29,062** |
| **Net Book Value** | | | | | |
| **At 31 March 2019** | 22,821 | 17,306 | 162 | 9,718 | **50,007** |
| At 31 March 2018 | 18,466 | 12,821 | 171 | 1,888 | 33,346 |

# 11. Investment properties

At 31 March 2019 all commercial properties were market valued externally by Jones Lang Lasalle Limited, qualified RICS Chartered Surveyors in accordance with the RICS Valuation – Professional Standards January 2014. The desktop valuation adopted a rent capitalisation methodology using floor areas and rental values. In the instance of properties having a dual use as offices and commercial lettings the cost is split by use using the proportion of floor area with office carrying cost being disclosed in property plant and equipment.

Residential properties held for investment and rented at market rents were valued at open market value basis subject to tenancies by Jones Lang Lasalle Limited. The valuation used a discounted cashflow model, with a discount rate of 6.75% to 7.0% over a 10-year period, with the net income in the final year capitalised into perpetuity .

| | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| Valuation at 1 April | **108,944** | 78,753 | **103,359** | 78,608 |
| Reclassification from stock | **7,568** | - | - | - |
| Reclassification to PPE | **(6,920)** | 16,659 | **(6,920)** | 25,858 |
| Transfer of engagement | **-** | - | **195** | - |
| Additions | **354** | 12,702 | **354** | 12,702 |
| Disposals | **(1,803)** | (411) | **(1,803)** | (411) |
| Transfer to fixed assets | **(1,777)** | (1,795) | **(1,777)** | (1,795) |
| Transfer to Group company | **-** | - | **-** | (14,183) |
| Valuation adjustment | **568** | 3,036 | **(3,298)** | 2,580 |
| **At 31 March** | **106,934** | 108,944 | **90,110** | 103,359 |

# 12. Investment in social Homebuy

The Group retains a stake in homes purchased through the Homebuy and Starter Home Initiative schemes which are regarded as public benefit entity concessionary loans and are held in the statement of financial position. Investments in Homebuy and Starter Home Initiatives are funded through Social Housing Grant. The Association funds 6% of the stake in Starter Home Initiatives, with the remainder being funded through Social Housing Grant. No interest is payable, the security is a charge on the loan and repayment is due upon the sale of the property. There are no concessionary loans committed but not taken up at year end.

| | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| **Homebuy and starter home initiatives** | **7,478** | 7,710 | **7,478** | 284 |

Social Homebuy loans were transferred from Southern Home Ownership Limited to Southern Housing Group Limited under a Transfer of Engagement during the year.

# 13. Listed and unlisted investments

| | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| Listed investments - Held at Fair Value | **-** | 4,434 | **-** | 4,434 |
| Unlisted investments - Held at Cost | **8,084** | 8,512 | **8,084** | 8,512 |
| | **8,084** | 12,946 | **8,084** | 12,946 |

All listed investments representing holdings in managed funds were sold during the year. These comprised the COIF Charities Investment Fund and the Black Rock Charitrak Fund.

The unlisted investments comprise interest bearing cash deposits placed as a guarantee for loans from The Housing Finance Corporation Limited (THFC). The deposits are held as interest cover with differing maturity and interest rates in line with the loan facility agreements.

## Movement on listed and unlisted investments

| | **Fair Value £000s** | **Amortised Cost £000s** | **Total £000s** |
|---|---|---|---|
| At 1 April 2018 | 4,434 | 8,512 | 12,946 |
| Sale | (4,434) | - | (4,434) |
| Cash deposit movement | - | (428) | (428) |
| **At 31 March 2019** | **-** | **8,084** | **8,084** |

# 14. Investment in connected entities

The investment loan provided to Southern Space Limited comprised an extendable five year revolving credit facility of up to £60m with interest charged at average 3 month LIBOR + 3%, and a land purchase loan up to £15m with interest charged at the base lending rate + 4%. The loans, secured via a charge on Southern Space Limited's assets were substantially repaid during the year. The outstanding balance of £1,109,000 is now reflected in amounts due from group undertakings. The investment in subsidiary of £1,740,000 (2018: £1,740,000) relates to Spruce Homes Limited.

| | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| **Cost** | | | | |
| Investment loan to wholly owned subsidiary | **-** | - | **-** | 27,091 |
| Investment in subsidiary | **-** | - | **1,740** | 1,740 |
| Investment loan to joint venture entity | **1,790** | 1,803 | **1,790** | 1,803 |
| | **1,790** | 1,803 | **3,530** | 30,634 |

| | **Wholly owned subsidiary £000s** | **Joint venture entity £000s** | **Association £000s** |
|---|---|---|---|
| At 1 April 2018 | 28,831 | 1,803 | 30,634 |
| Net decrease in investment | (27,091) | (13) | (27,104) |
| **At 31 March 2019** | **1,740** | **1,790** | **3,530** |

Southern Housing Group Limited holds:

- 100% of the ordinary share capital of Southern Development Services Limited
- 100% of the ordinary share capital of Southern Space Limited
- 100% of the ordinary share capital of Spruce Homes Limited
- 100% of the ordinary share capital of Southern Housing Construction Limited

# 15. Investment in joint ventures

| | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| Triathlon Homes LLP | **-** | - | **-** | - |
| Affinity (Reading) Holdings Limited | | | | |
| Investment | **1,294** | 1,294 | **1,294** | 1,294 |
| Share of accumulated surplus | **592** | 557 | **-** | - |
| **Net investment in joint ventures** | **1,886** | 1,851 | **1,294** | 1,294 |

# 15. Investment in joint ventures (continued)

Southern Housing Group Limited holds:

A 50% partnership capital in Affinity Housing Services (Reading), a joint venture with Windsor & District Housing Association, which is accounted for as a jointly controlled operation. The joint venture has a 33% holding in Affinity (Reading) Holdings Limited, which holds 100% of the share capital of Affinity (Reading) Limited, the operator of a PFI Contract to supply refurbishment, management and maintenance services to part of Reading Borough Council's housing portfolio.

A 33.33% direct holding in Affinity (Reading) Holdings Limited, which together with the indirect holding described above, gives a total interest of 50%. The indirect interest is accounted for through the accounting of Affinity Housing Services (Reading). The direct interest is accounted for as a jointly controlled entity. In the Association it is held at cost less impairment and in the Group it is held using the equity method of accounting.

Southern Space Limited holds a one-third interest in Triathlon Homes LLP, a joint venture with First Base 4 Stratford LLP and East Place Limited. The principal activity of Triathlon Homes LLP is the management of the social housing within East Village, Stratford. Following the final handover of all units by the developer to Triathlon Homes LLP, all units are used for social housing in a variety of tenures.

Triathlon Homes LLP has net negative reserves due to a negative cash flow hedge reserve. The Group has no contractual liability for the resultant losses. Accordingly, the Group's share of the net assets in Triathlon Homes LLP is written down to nil.

Therefore the following figures are not included within the investment in joint ventures:

| | **Triathlon Homes LLP 2019 £000s** | Triathlon Homes LLP 2018 £000s |
|---|---|---|
| Turnover | **5,174** | 5,057 |
| (Loss)/Profit before taxation | **(1,311)** | 3,090 |
| **(Loss)/Profit before taxation** | **(1,311)** | 3,090 |
| **Share of assets** | | |
| Share of fixed assets | **71,685** | 73,378 |
| Share of current assets | **9,472** | 8,515 |
| | **81,157** | 81,893 |
| **Share of liabilities** | | |
| Due within one year | **(2,241)** | (2,337) |
| Due after one year | **(81,475)** | (80,222) |
| | **(83,716)** | (82,559) |
| **Investment summary** | | |
| Share of accumulated reserves | **(2,559)** | (666) |
| | **(2,559)** | (666) |

# 16. Stock

| | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Under construction- first tranche shared ownership | **22,407** | 17,289 | **8,033** | 9,300 |
| Under construction- open market sales | **49,241** | 38,742 | **909** | 9,289 |
| Completed properties- first tranche shared ownership | **5,243** | 3,527 | **476** | 1,729 |
| Completed properties- open market sales | **10,468** | - | **-** | - |
| | **87,359** | 59,558 | **9,418** | 20,318 |

# 17. Trade and other debtors

| | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Rent arrears and service charges | **10,490** | 9,405 | **10,465** | 8,974 |
| Less: provision for bad and doubtful debts | **(3,813)** | (3,142) | **(3,813)** | (3,053) |
| | **6,677** | 6,263 | **6,652** | 5,921 |
| Amounts due from group undertakings | **-** | - | **76,041** | 5,197 |
| Other debtors | **4,721** | 4,162 | **4,492** | 3,119 |
| Prepayments and accrued income | **3,586** | 2,563 | **3,567** | 2,529 |
| | **14,984** | 12,988 | **90,752** | 16,766 |

Of the £76,041,000 due to the Association from group undertakings, £73,984,000 relates to revolving loans due after one year which are secured via a charge on the entity's assets at interest rates between 2% and 4% over 3 month LIBOR.

# 18. Creditors: amounts falling due within one year

| | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Social housing grant received in advance | **201** | 139 | **201** | - |
| Recycled capital grant fund (RCGF) | **502** | 9,144 | **502** | 4,883 |
| Disposal proceeds fund (DPF) | **6** | **-** | **6** | - |
| Amounts due to group undertakings | **-** | - | **2,088** | 4,067 |
| Accruals and deferred income | **21,525** | 22,361 | **16,718** | 16,778 |
| Corporation tax | **926** | 1,226 | **-** | 581 |
| Other taxation and social security | **1,436** | 886 | **958** | 885 |
| Other creditors | **23,381** | 16,951 | **22,751** | 10,782 |
| Grant repayable | **2,873** | 2,873 | **2,873** | 2,873 |
| Housing loans | **11,330** | 59,709 | **11,330** | 29,182 |
| | **62,180** | 113,289 | **57,427** | 70,031 |

Amounts collected from shared ownership leaseholders in respect of service charges, not yet expended, of £9,942,000 (2018: £9,410,000) are reflected above in other creditors.

# 19. Creditors: amounts falling due after more than one year

| | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| 19a Housing Loans | **817,274** | 659,820 | **817,274** | 636,935 |
| 19b Deferred income | **735,495** | 737,586 | **729,581** | 702,073 |
| 19c Recycled capital grant fund (RCGF) | **11,635** | 6,205 | **11,602** | 3,738 |
| 19d Disposal proceeds fund (DPF) | **9** | 26 | **9** | 26 |
| Derivative financial instruments (Note 29) | **-** | 41,953 | **-** | 41,953 |
| | **1,564,413** | 1,445,590 | **1,558,466** | 1,384,725 |

| **19a Housing loans** | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| Housing loans falling due after one year | **508,177** | 592,264 | **508,177** | 569,069 |
| Bonds | **325,000** | 76,000 | **325,000** | 76,000 |
| Loan set up cost | **(7,144)** | (3,084) | **(7,144)** | (2,880) |
| Other loan costs | **(8,759)** | (5,360) | **(8,759)** | (5,254) |
| **Loans at amortised cost** | **817,274** | 659,820 | **817,274** | 636,935 |

"Housing loans are all secured by specific charges on 16,478 (2018: 15,081) of the Group's housing units, are subject to covenants, and are repayable in installments due as follows:

| | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| Housing loans falling due within one year | **2,720** | 54,387 | **2,720** | 23,970 |
| Interest accrued | **8,610** | 5,322 | **8,610** | 5,212 |
| **Total housing loans falling due within one year** | **11,330** | 59,709 | **11,330** | 29,182 |
| Between one and two years | **53,230** | 27,751 | **53,230** | 27,244 |
| Between two and five years | **93,122** | 27,692 | **93,122** | 26,573 |
| In five years or more | **686,825** | 612,821 | **686,825** | 591,252 |
| | **833,177** | 668,264 | **833,177** | 645,069 |
| **Total** | **844,507** | 727,973 | **844,507** | 674,251 |

Housing loans bear fixed rates of interest ranging from 1.6% to 11.45% or variable rates based on a margin above the London Inter Bank Offer Rate. The final instalments fall to be repaid during the period 2019 to 2047.

# 19. Creditors: amounts falling due after more than one year (continued)

| 19b Deferred income | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Social and other housing grant b/fwd | **736,768** | 743,155 | **701,255** | 707,706 |
| Social housing grant received in the year | **3,545** | 2,492 | **3,545** | 2,492 |
| Grant repaid | **(25)** | (310) | **(25)** | (310) |
| Grant abated | **-** | (41) | **-** | (41) |
| Transfer of engagement | **-** | - | **32,556** | - |
| Intra group transfer | **-** | - | **-** | (1,827) |
| Transfer from RCGF | **3,425** | 516 | **133** | 1,489 |
| Transfer from DPF | **-** | 82 | **-** | 82 |
| Grant amortisation released on disposals | **640** | 552 | **470** | 352 |
| Amortisation of social housing grant in year | **(9,620)** | (9,678) | **(9,115)** | (8,688) |
| Deferred income - Social housing grant c/fwd | **734,733** | 736,768 | **728,819** | 701,255 |
| Premium on debentures | **193** | 304 | **193** | 304 |
| Share of Joint venture deferred income | **569** | 514 | **569** | 514 |
| | **735,495** | 737,586 | **729,581** | 702,073 |

Grant attributed to completed properties was transferred from Southern Home Ownership Limited to Southern Housing Group Limited under a Transfer of Engagement during the year.

# 19. Creditors: amounts falling due after more than one year (continued)

## 19c Recycled capital grant fund

| Balance relating to Homes England | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Balance at 1 April | 7,586 | 6,264 | 5,098 | 4,121 |
| Grant released on sales | 1,062 | 1,297 | 881 | 960 |
| Transfer of engagement | - | - | 2,678 | - |
| Interest added to fund | 55 | 25 | 46 | 17 |
| Grant recycled into new schemes | (340) | - | (340) | - |
| **Balance at 31 March** | **8,363** | 7,586 | **8,363** | 5,098 |
| **Comprising amounts:** | | | | |
| Due within one year | - | 4,643 | - | 2,860 |
| **Due in more than one year** | **8,363** | 2,943 | **8,363** | 2,238 |

| Balance relating to the GLA | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Balance at 1 April | 7,763 | 9,454 | 3,523 | 3,291 |
| Grant released on sales | 1,780 | 1,364 | 1,333 | 727 |
| Transfer of engagement | - | - | 4,666 | - |
| Interest added to fund | 56 | 35 | 44 | 13 |
| Intra-group transfer | - | - | (3,907) | 2,582 |
| Grant recycled into new schemes | (5,825) | (3,090) | (1,918) | (3,090) |
| **Balance at 31 March** | **3,774** | 7,763 | **3,741** | 3,523 |
| **Comprising amounts:** | | | | |
| Due within one year | 502 | 4,501 | 502 | 2,023 |
| **Due in more than one year** | **3,272** | 3,262 | **3,239** | 1,500 |
| Total due within one year | 502 | 9,144 | 502 | 4,883 |
| **Total due in more than one year** | **11,635** | 6,205 | **11,602** | 3,738 |

# 19. Creditors: amounts falling due after more than one year (continued)

## 19d Disposal proceeds fund

| Balance relating to Homes England | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Balance at 1 April | 14 | 56 | 14 | 56 |
| Interest added to fund | 1 | - | 1 | - |
| Released on sales | - | 9 | - | 9 |
| Recycled into new schemes | - | (51) | - | (51) |
| **Balance at 31 March** | **15** | 14 | **15** | 14 |
| **Comprising amounts:** | | | | |
| Due within one year | 6 | - | 6 | - |
| **Due in more than one year** | **9** | 14 | **9** | 14 |

| Balance relating to the GLA | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Balance at 1 April | 12 | 44 | 12 | 44 |
| Intra-group transfer | - | - | (12) | - |
| Recycled into new schemes | (12) | (32) | - | (32) |
| **Balance at 31 March** | - | 12 | - | 12 |
| **Comprising amounts:** | | | | |
| **Due in more than one year** | - | 12 | - | 12 |
| Total due within one year | 6 | - | 6 | - |
| **Total due in more than one year** | **9** | 26 | **9** | 26 |

# 20. Social Housing Grant

The Group receives financial assistance from Homes England and GLA. These government grants are accounted for as deferred income in the statement of financial position and are amortised annually to the statement of comprehensive income based on the life of the building structure, which is 100 years.

The amount amortised represents a contingent liability to the entity and will be recognised as a liability when the properties funded by the relevant government grant are disposed of or when the property ceases to be used for social housing purposes as disclosed in Note 31.

The analysis of the assistance from government sources in the form of government grants is:

| | Note | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|---|
| Government funding received | 19b | **734,733** | 736,768 | **728,819** | 701,255 |
| Grants amortised in the year (contingent liabilities) | | **9,620** | 9,678 | **9,115** | 8,688 |

# 21. Provisions for liabilities and charges

| **Housing property defects and repairs** | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| Balance at 1 April | **1,403** | 167 | **1,200** | - |
| Fire safety costs provision (released)/recognised | **(1,200)** | 1,200 | **(1,200)** | 1,200 |
| Defects provision (released)/increased | **(203)** | 36 | **-** | - |
| **Balance as at 31 March** | **-** | 1,403 | **-** | 1,200 |

# 22. Called up share capital

| **Shares of £1 each issued and fully paid:** | **2019 £** | 2018 £ |
|---|---|---|
| Balance at 1 April | **6** | 8 |
| Shares issued during year | **2** | - |
| Shares surrendered during year | **(2)** | (2) |
| **As at 31 March** | **6** | 6 |

The share capital of the Association consists of shares of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that person's share capital is cancelled.

# 23. Capital commitments

| | Group 2019 £000s | Group 2018 £000s | Association 2019 £000s | Association 2018 £000s |
|---|---|---|---|---|
| Capital expenditure contracted but not provided for in the financial statements | **46,387** | 107,239 | **24,111** | 90,355 |
| Capital expenditure authorised but not contracted | **123,093** | 366,562 | **2,051** | 215,280 |

Committed development expenditure for the Group and Association will be financed through £23,209,000 (2018: £11,953,000) grant with the balance funded through cash balances, cash generated, property sales and borrowings on undrawn funding facilities. It is not possible to identify the exact split of the funding.

# 24. Operating leases

## Leased assets

Payments under cancellable operating leases are charged to the statement of comprehensive income on a straight line basis over the life of the lease.

| **Future minimum lease payments** | Equipment 2019 £000s | Total 2019 £000s | Total 2018 £000s |
|---|---|---|---|
| Within one year | 65 | **65** | 129 |
| Between one and five years | 252 | **252** | 298 |
| Over five years | - | **-** | - |
| | 317 | **317** | 427 |

## Operating leases with tenants

The Group's rental properties other than those held for investment purposes are tenanted under cancellable operating leases with typical tenant break clauses of four weeks. Rents vary in line with the Rent Standard as set by the Government and affected by the Welfare Reform and Work Act 2016. The Group share of equity in a shared ownership property may be purchased by its leaseholder at any time at the pro-rata market rate at which point ongoing lease payments will be adjusted according to the share of ownership retained by the Group.

Income on all operating leases is recorded in the statement of comprehensive income as the rent falls due. The Group’s residential market rented properties are let under operating leases which are cancellable ranging from four weeks to three month notice periods. The Group’s commercial properties are let under non-cancellable operating leases.

The Group's future minimum operating lease receipts on Commercial properties were:

| **Minimum amounts due within:** | 2019 £000s | 2018 £000s |
|---|---|---|
| less than one year | **2,320** | 2,258 |
| later than one year and not later than five years | **7,168** | 7,545 |
| later than five years | **4,342** | 5,820 |
| | **13,830** | 15,623 |

# 25. Post employment benefits

The Group participates in a number of pension schemes:

a) Defined benefit schemes

Southern Housing Group Limited contributes to the Southern Housing Group scheme which was closed to new members from 31 March 2003.

Southern Housing Group Limited also contributed during the year to:

- The Isle of Wight Council Pension Fund for employees who transferred from the Isle of Wight Council.
- The Islington local government Pension Scheme of which there is only 1 member, the share of scheme assets and liabilities of which are not material to the Southern Housing Group Limited financial statements.

b) Defined contribution schemes

A defined contribution scheme run by Zurich Assurance Limited based on an incentive matched scale, where the employer contribution increases the more the employee contributes.

The amounts recognised in the balance sheet are as follows:

| | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| Southern Housing Group Pension Scheme | **(7,213)** | (6,504) | **(7,213)** | (6,504) |
| Isle of Wight Pension Scheme | **(2,137)** | (2,215) | **(2,137)** | (2,215) |
| **Total net deficit** | **(9,350)** | (8,719) | **(9,350)** | (8,719) |

## Southern Housing Group Pension Scheme

Southern Housing Group Limited is the sponsoring employer of a funded defined benefit pension scheme (the Plan) in the UK, which provides retirement benefits based on members' salary when leaving employment. The assets of the Plan are held in a separately administered fund and the Plan is administered by a trustee body (independent of Southern Housing Group Limited) who are responsible for ensuring that the Plan is sufficiently funded to meet current and future obligations.

The present value of the defined benefit obligation and the related current service cost were measured using the projected unit credit method. The last full actuarial valuation was carried out at 31 March 2016.

# 25. Post employment benefits (continued)

## Southern Housing Group Pension Scheme (continued)

Southern Housing Group Limited has agreed a funding plan with the trustee of the Plan, whereby ordinary contributions are made into the Plan based on a percentage of active employees' salary. Additional contributions are agreed with the trustee of the Plan to reduce the funding deficit where necessary. The disclosures set out below are based on calculations carried out as at 31 March 2019 by an independent qualified actuary.

### SHG Scheme 1964

During the year the Group paid contributions at a rate of 24% plus an additional annual payment of £662,460 (2018: £662,460) towards an identified deficit.

The employer contribution rate to be applied from 1 April 2019 is 24%.

The past service cost is recognised based on the forecast impact on benefits due to the Guaranteed minimum pension (GMP) ruling in October 2018.

The results of the calculations and the assumptions adopted are shown below.

| Actuarial assumptions | **2019 % pa** | 2018 % pa |
|---|---|---|
| Rate of increase in salaries | **2.70** | 2.60 |
| Discount rate | **2.40** | 2.65 |
| Inflation assumption - RPI | **3.30** | 3.20 |
| Inflation assumption - CPI | **2.20** | 2.10 |

| Mortality assumptions | **Male** | Female |
|---|---|---|
| Current pensioner aged 65 | **21.40** | 23.30 |
| Future retiree upon reaching 65 | **22.70** | 24.80 |

The major categories of scheme assets as a percentage of total scheme assets are:

| | **2019 %** | 2018 % |
|---|---|---|
| Equities | **46.90** | 48.80 |
| Property | **-** | 4.30 |
| Diversified growth fund & LDI | **52.50** | 45.30 |
| Cash | **0.60** | 1.60 |
| **Total** | **100.00** | 100.00 |

| Net defined benefit asset (liability) | **2019 £000s** | 2018 £000s |
|---|---|---|
| Fair value of scheme assets | **47,637** | 45,089 |
| Present value of defined benefit obligation | **(51,327)** | (48,333) |
| **Defined benefit liability recognised in balance sheet** | **(3,690)** | (3,244) |

# 25. Post employment benefits (continued)

## Southern Housing Group Pension Scheme (continued)

| Total expense recognised in statement of comprehensive income | 2019 £000s | 2018 £000s |
|---|---|---|
| Current service cost | **454** | 558 |
| Past service cost | **307** | - |
| Administration expenses | **188** | 225 |
| Recognised in arriving at operating profit | **949** | 783 |
| Net interest on the net defined benefit liability | **77** | 180 |
| **Total recognised in the profit and loss account** | **1,026** | 963 |

| Total amounts taken to other comprehensive income | 2019 £000s | 2018 £000s |
|---|---|---|
| Actual return on scheme assets - gains and (losses) | **2,898** | 1,586 |
| less amounts included in net interest on the net defined benefit liablility | **(1,192)** | (1,108) |
| **Remeasurement gains and (losses)** | | |
| Return on scheme assets excluding interest income | **1,706** | 478 |
| Actuarial (losses)/gains | **(2,238)** | 3,620 |
| **Remeasurement (losses)/gains recognised in other comprehensive income** | **(532)** | 4,098 |

| Changes in the present value of the defined benefit obligation | 2019 £000s | 2018 £000s |
|---|---|---|
| Present value of defined benefit obligation at beginning of year | **48,333** | 50,936 |
| Benefits paid | **(1,335)** | (903) |
| Administration expenses paid | **(188)** | (225) |
| Current service cost | **454** | 558 |
| Past service cost | **307** | - |
| Administration costs | **188** | 225 |
| Interest cost | **1,269** | 1,288 |
| Employee contributions | **61** | 74 |
| **Remeasurement gains and (losses)** | | |
| Actuarial gains/(losses) | **2,238** | (3,620) |
| **Present value of defined benefit obligation at end of year** | **51,327** | 48,333 |

| Changes in the fair value of assets | 2019 £000s | 2018 £000s |
|---|---|---|
| Fair value of scheme assets at beginning of year | **45,089** | 43,408 |
| Interest income | **1,192** | 1,108 |
| **Remeasurement gains and (losses)** | | |
| Return on scheme assets excluding interest income | **1,706** | 478 |
| Contributions by employer | **1,112** | 1,149 |
| Employee contributions | **61** | 74 |
| Benefits paid | **(1,335)** | (903) |
| Administration expenses | **(188)** | (225) |
| **Fair value of scheme assets at end of year** | **47,637** | 45,089 |

# 25. Post employment benefits (continued)

## Southern Housing Group Pension Scheme (continued)

### SHG Scheme 2017

During the year the Group paid contributions at a rate of 24% plus an additional annual payment of £633,000 (2018: £nil) towards an identified deficit.

The employer contribution rate to be applied from 1 April 2019 is 24%.

The past service cost is recognised based on the forecast impact on benefits due to the Guaranteed minimum pension (GMP) ruling in October 2018.

The results of the calculations and the assumptions adopted are shown below.

| Actuarial assumptions | **2019**<br>**% pa** | 2018<br>% pa |
|---|---|---|
| Rate of increase in salaries | **3.30** | 3.20 |
| Discount rate | **2.40** | 2.65 |
| Inflation assumption - RPI | **3.30** | 3.20 |
| Inflation assumption - CPI | **2.20** | 2.10 |

| Mortality assumptions | Male | Female |
|---|---|---|
| Current pensioner aged 65 | 21.60 | 23.70 |
| Future retiree upon reaching 65 | 22.90 | 25.10 |

| Net defined benefit asset (liability) | **2019**<br>**£000s** | 2018<br>£000s |
|---|---|---|
| Fair value of scheme assets | **24,813** | 22,854 |
| Present value of defined benefit obligation | **(28,336)** | (26,114) |
| **Defined benefit liability recognised in balance sheet** | **(3,523)** | (3,260) |

# 25. Post employment benefits (continued)

## Southern Housing Group Pension Scheme (continued)

| Total expense recognised in statement of comprehensive income | 2019 £000s | 2018 £000s |
|---|---|---|
| Current service cost | 125 | 182 |
| Past service cost | 119 | - |
| Administration expenses | 168 | 40 |
| Recognised in arriving at operating profit | 412 | 222 |
| Net interest on the net defined benefit liability | 77 | 150 |
| **Total recognised in the profit and loss account** | **489** | **372** |

| Total amounts taken to other comprehensive income | 2019 £000s | 2018 £000s |
|---|---|---|
| Actuarial gains/(losses) | 679 | (1,940) |
| **Remeasurement gains/(losses) recognised in other comprehensive income** | **679** | **(1,940)** |

| Changes in the present value of the defined benefit obligation | 2019 £000s | 2018 £000s |
|---|---|---|
| Present value of defined benefit obligation at beginning of year | 26,114 | 28,304 |
| Benefits paid | (760) | (983) |
| Current service cost | 125 | 182 |
| Past service cost | 119 | - |
| Interest cost | 682 | 709 |
| Employee contributions | 63 | 54 |
| **Remeasurement gains and (losses)** | | |
| Actuarial gains/(losses) | 1,993 | (2,152) |
| **Present value of defined benefit obligation at end of year** | **28,336** | **26,114** |

| Changes in the fair value of assets | 2019 £000s | 2018 £000s |
|---|---|---|
| Fair value of scheme assets at beginning of year | 22,854 | 21,338 |
| Interest income | 605 | 559 |
| **Remeasurement gains and (losses)** | | |
| Return on scheme assets excluding interest income | 1,314 | (212) |
| Contributions by employer | 905 | 2,138 |
| Employee contributions | 63 | 54 |
| Benefits paid | (760) | (983) |
| Administration expenses | (168) | (40) |
| **Fair value of scheme assets at end of year** | **24,813** | **22,854** |

# 25. Post employment benefits (continued)

## The Isle of Wight Council Pension Scheme

The Group participates in a pension scheme providing benefits based on final pensionable pay: The Isle of Wight Pension Scheme. The scheme is funded by the payment of contributions to a pension fund, which is administered by the Isle of Wight Council. The Group has agreed a funding plan with the trustee, whereby ordinary contributions are made into the scheme based on a percentage of active employees' salary. Additional contributions are agreed with the trustee to reduce the funding deficit where necessary.

A comprehensive actuarial valuation of the pension scheme, using the projected unit credit method, was carried out at 31 March 2016 by a qualified independent actuary.

It has been agreed that an employer contribution rate of 28.3% of pensionable pay plus an additional amount of £170,000 will apply for 2019/20 (2018/19: 28.3% plus £170,000).

The major assumptions used in this valuation were:

| Actuarial assumptions | **2019**<br>**% pa** | 2018<br>% pa |
|---|---|---|
| Pension increase rate | **2.50** | 2.40 |
| Salary increase rate | **2.90** | 2.80 |
| Discount rate | **2.40** | 2.60 |
| Inflation assumption - RPI | **3.50** | 3.40 |
| Inflation assumption - CPI | **2.50** | 2.40 |

| Mortality assumptions | Male | Female |
|---|---|---|
| Current pensioner aged 65 | 22.30 | 24.70 |
| Future retiree upon reaching 65 | 23.90 | 26.50 |

The major categories of scheme assets as a percentage of total scheme assets are:

| | **2019**<br>**%** | 2018<br>% |
|---|---|---|
| Equities | **67.00** | 67.00 |
| Property | **6.00** | 6.00 |
| Bonds | **26.00** | 26.00 |
| Cash | **1.00** | 1.00 |
| **Total** | **100.00** | 100.00 |

# 25. Post employment benefits (continued)

## The Isle of Wight Council Pension Scheme (continued)

| Net defined benefit asset/(liability) | 2019 £000s | 2018 £000s |
|---|---|---|
| Fair value of scheme assets | **5,820** | 5,479 |
| Present value of defined benefit obligation | **(7,957)** | (7,694) |
| **Defined benefit liability recognised in balance sheet** | **(2,137)** | (2,215) |

| Total expense recognised in statement of comprehensive income | 2019 £000s | 2018 £000s |
|---|---|---|
| Current service cost | **71** | 73 |
| Recognised in arriving at operating profit | **71** | 73 |
| Net interest on the net defined benefit liability | **197** | 193 |
| **Total recognised in the profit and loss account** | **268** | 266 |

| Total amounts taken to other comprehensive income | 2019 £000s | 2018 £000s |
|---|---|---|
| Actual return on scheme assets - gains/(losses) | **298** | (74) |
| **Remeasurement gains and (losses)** | | |
| Return on scheme assets excluding interest income | **298** | (74) |
| Remeasurement (losses)/gains | **(311)** | 102 |
| **Remeasurement (losses)/gains recognised in other comprehensive income** | **(13)** | 28 |

| Changes in the present value of the defined benefit obligation | 2019 £000s | 2018 £000s |
|---|---|---|
| Present value of defined benefit obligation at beginning of year | **7,694** | 7,808 |
| Benefits paid | **(325)** | (289) |
| Current service cost | **71** | 73 |
| Interest cost | **197** | 193 |
| Employee contributions | **9** | 11 |
| **Remeasurement gains/(losses)** | | |
| Actuarial gains/(losses) | **311** | (102) |
| **Present value of defined benefit obligation at end of year** | **7,957** | 7,694 |

# 25. Post employment benefits (continued)

## The Isle of Wight Council Pension Scheme (continued)

| Changes in the fair value of assets | 2019 £000s | 2018 £000s |
|---|---|---|
| Fair value of Scheme assets at beginning of year | **5,479** | 5,477 |
| Interest income | **141** | 136 |
| Remeasurement gains/(losses) | **298** | (74) |
| Contributions by employer | **218** | 218 |
| Employee contributions | **9** | 11 |
| Benefits paid | **(325)** | (289) |
| **Fair value of scheme assets at end of year** | **5,820** | 5,479 |

## Defined Contribution Schemes

The amount recognised as an expense for the year for the defined contribution scheme was:

Zurich Assurance Limited £1,333,773 (2018: £894,351)

# 26. Legislative provisions

Southern Housing Group Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 (Registered Number 31055R) and registered with the Regulator for Social Housing, previously the Homes and Communities Agency (HCA) (Registered Number L4628).

# 27. Group organisations

Southern Housing Group Limited is the ultimate parent undertaking and controlling party and is required by statute to prepare group financial statements for the following organisations included in these financial statements, all the undertakings are incorporated in England and Wales:

| Name | Legal Status | Regulator | Nature of Business | Interest held by Parent (SHGL) |
|---|---|---|---|---|
| **Southern Housing Group Limited** | Co-operative and Community Benefit Societies Act 2014 Number 31055R | Registered Provider Number: L4628 | Provision of housing and accommodation to the disadvantaged | |
| **Southern Home Ownership Limited** | Co-operative and Community Benefit Societies Act 2014 Number 18521R | Registered Provider Number: LH1662 | Property development for the Group | 100% shares |
| **Southern Space Limited** | Companies Act 2006 Number 5437850 | | Development of properties for sale | 100% shares |
| **Southern Development Services Limited** | Companies Act 2006 Number 5400187 | | Provision of development services to other group companies | 100% shares |
| **Spruce Homes Limited** | Companies Act 2006 Number 10181074 | | Provision of housing for private rent | 100% shares |
| **Southern Housing Construction Limited** | Companies Act 2006 Number 10181046 | | Provides property construction service | 100% shares |
| **Samuel Lewis Foundation** | Charitable Endowment. Charity Number 206611 | Charities Commission | Provision of housing and accommodation to the disadvantaged (see note 30) | Corporate trustee |
| **Affinity Housing Services (Reading)** | Jointly controlled operation | | Joint venture with Windsor & District HA | 50% partnership capital |
| **Affinity (Reading) Holdings Limited** | Companies Act 2006 Number 04851135 | | Joint venture with Radian Housing | 33.3% share and 16.67% via Affinity Housing Services (Reading) |
| **Triathlon Homes LLP** | The Limited Liability Partnership Act 2000 | | Joint venture Entity with First Base 4 Stratford LLP and East Place Limited | 33% partnership interest via SSL |

# 28. Related parties

Intra-group transactions for Southern Housing Group Limited with non-regulated group members are as follows:

| Payments Received by Southern Housing Group Limited | 2019 £000s | 2018 £000s |
|---|---|---|
| Administration support and development costs from Southern Space Limited, Southern Development Services Limited, Spruce Homes Limited and Southern Housing Construction Limited | 2,205 | 1,848 |
| Loan interest from Southern Space Limited, Spruce Homes Limited and Southern Housing Construction Limited | 1,385 | 586 |
| Director's services,and profit distribution from Affinity Housing Services (Reading) | 155 | 105 |
| Provision of financial services for Triathlon Homes LLP | 140 | 140 |
| Sale of investment properties to Spruce Homes Limited | - | 2,675 |
| Gift Aid from Southern Space Limited and Southern Development Services Limited | 1,446 | - |
| **Total** | **5,331** | 5,354 |

| Payments made by Southern Housing Group Limited | 2019 £000s | 2018 £000s |
|---|---|---|
| Development costs paid to Southern Development Services Limited | 15,135 | 28,827 |
| Management costs paid to Spruce Homes Limited | 69 | 15 |
| **Total** | **15,204** | 28,842 |

| Assets | 2019 £000s | 2018 £000s |
|---|---|---|
| Intercompany debtor due from Southern Space Limited, Spruce Homes Limited and Southern Construction Limited to Southern Housing Group Limited | 2,826 | 30,011 |
| Redeemable loan notes due from Affinity Reading (Holdings) Limited | 1,790 | 1,803 |

| Liabilities | 2019 £000s | 2018 £000s |
|---|---|---|
| Intercompany creditor due from Southern Housing Group Limited to Southern Space Limited, Southern Development Services Limited and Southern Construction Limited | 2,088 | 4,068 |

Intra-group transactions for Southern Home Ownership with non-regulated group members are as follows:

| | 2019 £000s | 2018 £000s |
|---|---|---|
| Purchase of developments from Southern Space Limited | 42,893 | - |
| Management income from Spruce Homes Limited | 9 | - |
| Development costs paid to Southern Development Services Limited and Southern Housing Construction Limited | 5,111 | 3,768 |
| Intercompany debtor due from Spruce Homes Limited | 9 | - |
| Intercompany creditor due to Southern Space Limited, Southern Development Services Limited and Southern Housing Construction Limited | 1,247 | 296 |

Payments totalling £1,306 were made to Southern Housing Group Limited by Simone Buckley, a Board member who was a leaseholder during the year. The terms of the lease are on the same basis as for other tenants and on an arm's length basis.

As Spruce Homes Limited and Southern Housing Construction Limited have net current liabilities, the Association has provided a letter confirming its intention to provide financial support if required for these entities for a period at least 18 months from 1 April 2019.

# 29. Financial assets and liabilities

## Financial instruments

The Group has the following financial instruments:

| | **Group 2019 £000s** | Group 2018 £000s | **Association 2019 £000s** | Association 2018 £000s |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| - Investments at market value | - | 4,434 | - | 4,434 |
| | - | 4,434 | - | 4,434 |
| **Financial liabilities measured at fair value through profit or loss** | | | | |
| - Derivative financial instruments | - | 41,953 | - | 41,953 |
| | - | 41,953 | - | 41,953 |

# 30. Samuel Lewis Foundation

The Samuel Lewis Foundation is a separate charity with Southern Housing Group Limited as its trustee. Permanent endowment funds comprise the following resources which have been made available and which the trustees are legally required to retain or invest for specific charitable purposes. As these are permanent funds the trustees have no power to convert them into income and apply them as such. The fund balances include funds transferred from The Women's Housing Trust. These balances are included in the parent association, Southern Housing Group Limited. This disclosure is given for reporting purposes to the Charity Commission.

| | Date of acquisition | Original cost £000s | Number of units |
|---|---|---|---|
| Liverpool Road | 1910 | 324 | 247 |
| Jubilee Cottages | 1935 | 707 | 28 |
| Palliser Road | 1927 | 973 | 57 |
| Dalmeny Avenue | 1935 | 493 | 82 |
| Beech House | 1936 | 701 | 16 |

Fund balances are represented by:

| | **2019 £000's** | 2018 Restated £000's |
|---|---|---|
| Property, plant & equipment | **14,327** | 13,694 |
| Cash | **15,285** | 15,200 |
| Investment Properties | **7,200** | 7,465 |
| Total assets less current liabilities | **36,812** | 36,359 |
| **Creditors: amounts falling due after more than one year** | | |
| Social housing and other grants | **(7,443)** | (7,443) |
| **Total net assets** | **29,369** | 28,916 |
| **Net income from permanent endowed assets** | | |
| Income from lettings | **1,918** | 1,944 |
| Less expenditure on letting activities | **(809)** | (922) |
| Surplus on letting activities | **1,109** | 1,022 |
| Income from Investments | **11** | 11 |
| (Loss)/gain on revaluation | **(265)** | - |
| | **855** | 1,033 |

Expenditure on letting activities comprises certain specific identifiable costs and overheads which have been apportioned on a consistent basis to the endowed properties.

# 31. Contingent liabilities

The parent and Group have grant attributable to properties acquired from other housing associations that were purchased at fair value, measured at Existing Use Value – Social Housing (EUV-SH) or through a competitive bidding process. These properties included original government grant funding of £32,397,000 (2018: £13,347,000) which the parent and Group have an obligation to be recycled in accordance with the original grant funding terms and conditions. In accordance with the SORP, these amounts are disclosed as a contingent liability. The parent and Group are responsible for the recycling of the grant in the event of the housing properties being disposed.

At March 2019 the value of cumulative amortised grant which would require to be recognised as a liability if the properties funded were disposed of or ceased to be used for social housing purposes was £135,706,000 (2018:£ 126,014,000).

# 32. Post balance sheet events

In May 2019 the Group successfully priced £100 million of Retained Bonds in two separate tranches; £75 million on the 14th May 2019; and £25 million on the 17th May 2019.